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Socio-economic structure and crisis of peripheral capitalism

*Raúl Prebisch**

In the present article the author continues and expands the critical analysis of peripheral capitalism which he began in another that was published in the first issue of this Review. His central contention is that in peripheral societies the development process—whereby the accumulation of capital in the form of goods and training of human resources makes it possible to step up the productivity of the labour force and thus to increase the total product—is not carried out with the necessary efficiency at the social and even, in many cases, at the economic level.

The object of the entire article is to explain the causes of this phenomenon, from those most directly linked to the internal dynamism of the peripheral societies and pivoting upon the process of generation, appropriation and use of the fruits of technical progress, to those connected with the external relations of the societies in question and in particular with the spread of the consumption patterns of the centres, the presence of the transnational corporations and the siphoning-off of peripheral income.

The interaction of these factors, in combination with many others to which the author draws attention in the course of the article, ends by setting up a type of society—the 'privileged-consumer society', contrasting with the 'sub-consumer society'—which cannot satisfy the exigencies of social and political democratization, and is entering upon a crisis that can be resolved only by means of changes as fundamental as its causes.

*Director of the Review.

Introduction¹

1. *The contradictions of peripheral development in Latin America*

To develop in the image and likeness of the centres has been and still is the bent of imitative capitalism in the Latin American region of the periphery, to which the present article is confined. If the centres have succeeded in spreading welfare to the masses, notwithstanding certain disconcerting effects deriving from the ambivalence of technique, why should we not be able to do the same?

To judge from the experience of the past few decades, we are very far from attaining this end. Moreover, that experience, in my opinion, shows social disparities to be growing wider rather than diminishing. For in actual fact peripheral capitalism tends to exclude vast masses of the population in the lower strata of the social structure from enjoyment of the fruits of development; and it becomes increasingly

¹While this article is concerned with Latin America in general, the interpretation of the development phenomena of each individual country must take into account the conditions in which these phenomena make their appearance, the phase of transformation through which the socio-economic structure of the country concerned is passing, and the concomitant changes in political power.

I have pleasure in taking the present opportunity to thank my colleagues in CEPAL who have collaborated in the critical revision of this article. Manuel Balboa has discussed with me the theory of the surplus and has offered constructive suggestions; Anibal Pinto has patiently and meticulously perused the text and has helped to clarify it and to modify it in respect of some important points of economic theory; Jorge Graciarena has made extremely useful comments, especially in the sociological field; and Octavio Rodríguez, with his intimate knowledge of CEPAL thinking, has assisted me in bringing certain significant linkages to light. Last but not least, Adolfo Gurrieri, my immediate collaborator, kept in constant touch with me while I was working out my ideas, and put forward points of view that have been of great help to me in my thinking; and, in collaboration with Gregorio Weinberg, editor of the Review, he has edited the text with scrupulous care.

conflictive as the democratization process makes headway.

I attempted to explain these phenomena in my previous article, and am now continuing my analysis in the conviction that in order to exert deliberate influence on the real situation, or rather to change it, the first requisite is to understand it and to probe into the reasons why the hopes entertained have gradually faded, especially among those who have succeeded in ridding themselves of dogmatic preconceptions.

The contradictions apparent in the system are very serious: prosperity and sometimes opulence at one extreme; relentless poverty at the other.

A few decades ago the remarkable momentum gained by industrial development, the ability, initiative and drive of many entrepreneurs, and the increasing aptitudes of the labour force at its different levels of skills, could hardly have been conceivable. High rates of growth have been achieved, and the region is learning to export manufactures in defiance of internal and external obstacles that once seemed almost insurmountable. And technical progress is penetrating into areas that it was slow to reach, in particular traditional agriculture.

But from the social standpoint development has been going astray, and much of the vital energy of the system is being wasted as far as the collective welfare is concerned, because it is expended within the limited sphere of the privileged-consumer society.²

My conclusion is categorical: the consumer society is incompatible with the integration into the system of the masses that stagnate in the sub-consumer society. I have no doubt whatsoever that in the consumer

society great economic efficiency can be achieved; but neither do I hesitate to assert that the system is fundamentally lacking in social efficiency. This, however, is not the only conclusion to be drawn. There is also another of grave import; and I am stating them here as pointers to what I am driving at.

The privileged-consumer society is irreconcilable, in the long run, with the march of democracy. It can function smoothly only when, in accordance with the phase through which the socio-economic structure is passing, the democratization process is contained, or when, after having gained great impetus, it is suspended by the use of force. And the reason lies not so much in the intrinsic defects from which democratization is assuredly not free, as in the deep-seated flaws in the system.

Among the latter, the most striking relate to income distribution, which is the area where the aforementioned widening disparities are found. In peripheral capitalism the appropriation of the fruits of technical progress is largely the arbitrary result of the play of power relations arising out of the social structure. This interplay obeys no regulating principle inspired by considerations of equity, for these are alien to the operation of the system. Income distribution has its own special dynamics, which in the course of development manifest itself through increasingly conflictive phenomena; and these, in the course of time, culminate in a crisis of the system.

My contention here is that all this, if I may put it simply, stems from the fact that the fruits of the higher productivity which accompanies the propagation of the technique of the centres in the periphery are largely concentrated in the upper income strata, principally by virtue of the latter's economic power. In other words, they are not disseminated as is assumed in the neo-classical theories, which have blossomed out again and are influencing the development praxis, but which are formulated in

²The term 'privileged-consumer society', or simply 'consumer society', whichever is preferred, denotes excessive and premature imitation of the consumption patterns of the centres.

the abstract, at a level remote from the socio-economic structure, whereas the appropriation of the fruits of development is of an essentially structural character. Disregarding the structure means straying down a blind alley.

These upper strata, then, are the basis of the privileged-consumer society, in which a limited sector of the labour force, characterized by social power, also participates. Within the narrow ambit of that society income can rise at rates so high as to call forth admiration both at home and abroad.

But here a question arises: how is it possible to develop imitation of the consumption of the centres on these lines and at the same time to accumulate capital in order to further the propagation of their technique?

2. The surplus and insufficient accumulation

Let us now look at one of the points in my theoretical interpretation which I want to underline because it is of considerable significance. I refer to the surplus, i.e., that part of the fruits of higher productivity which, owing to the great heterogeneity of the socio-economic structure, is not distributed among the labour force and remains in the hands of the owners of the means of production. These means are increasingly concentrated in the upper strata, thanks to the evolution of the system itself; thus the growth of the surplus deriving from them is ceaseless, and furthermore, as I shall endeavour to show, rapid enough to outstrip the growth rate of the overall product of the economy. And thus, commensurately with the advance of development, the surplus attains dimensions which enable the upper strata to imitate more and more closely the consumption of the centres, and, at the same time, to introduce increasingly productive and capital-intensive techniques.

Higher productivity implies less em-

ployment of labour per unit of capital. But at the same time it steps up capital accumulation potential. If full use were made of this potential, absorption of labour would be multiplied and the income of the labour force would progressively increase. The system would therefore gradually improve its social efficiency.

But this does not happen. For much of that potential is frittered away in the consumer society and in the siphoning-off of peripheral income into the centres with which that society is so closely linked.

It might be asserted that the higher the rate of increase of productivity, the higher the rate of capital accumulation should rise, thanks to the growth of the surplus; but the progressive development of the consumer society precludes this. On the contrary, the more productivity increases, the more the consumer society tends to immure itself in the interplay of market laws. Thus its dynamics may reach an impressive pitch, to the manifest detriment of the social efficiency of the system. Not only is the upward absorption of the lower strata weakened, but redundancy of labour supervenes, and these redundant workers eke out a living somehow in the strata where they are, or manage to get spuriously absorbed into the middle strata, particularly in the orbit of the State.

This is where the myth of the unlimited expansion of peripheral capitalism and its essential role in the diffusion of human welfare melts into thin air. The expansion is for the few but not for the many. The dynamics of the privileged-consumer society, strictly speaking, could not be generated without the surplus. And the surplus could not be formed if the labour force that is being absorbed in the system were not in so weak a position to share in the fruits of increased productivity, under the rule of market laws.

Nevertheless, the consumer society's tendency to develop intensively within its own bounds cannot be kept up indefinitely,

without facing any opposition, since in the course of development another tendency emerges, running counter to the first, and seeking to extend the advantages of development downwards, albeit without extirpating the root causes of distribution disparities and of the system's insufficient capacity for absorption. Conflict between the two trends is only a matter of time.

What happens is that while the social structure is undergoing the changes that accompany the propagation of technique, the middle strata expand, and this makes democratization possible, though there are major obstacles in the way. And accordingly the disadvantaged labour force in these strata acquires increasing trade-union and political power, which enables it to improve its levels of consumption both of goods and of State services, at the expense of the growth of the surplus.

The fact that the surplus grows faster than the overall product affords room for this improvement in certain phases of structural change. But as these changes proceed, the disparity between the two growth rates lessens, not only on account of the redistribution struggle waged by the middle strata as they increase their capacity to claim their share and to defend the ground already won, but also because of the sometimes considerable expansion of State services and, among these, of military expenditure, likewise in imitation of the more and more costly patterns of the centres. Another contributory factor, too, is the spurious absorption of the labour force.

3. The crisis of the system and liberalism

A point is thus reached at which the surplus ceases to grow more rapidly than the overall product. True, it has reached its maximum, and if it could stay at this, increasing at the same rate as the total product, it could continue to develop regularly and to act as the

driving force of the consumer society, provided that the redistribution struggle were to stop at that limit. But there is no reason why it should stop there, when there is still a vast amount that could be redistributed. As already noted, the play of power relations is not guided by any regulating principle of equity. And as the struggle advances beyond the aforesaid limit, the upper strata show that although they have had to share political power with the middle and also the lower strata, they still have at their disposal, thanks to their economic power, some very important weapons. These are the monetary mechanisms whereby they can recoup themselves for the effects of the struggle and of State expenditure, shifting the burden to others by means of price increases. Thus the inflationary spiral coils upward in a new type of social inflation which frequently combines with the traditional inflationary pressures.

The spiral brings with it economic disorder and social disintegration. And this, sooner or later, induces the upper strata to resort to another of the State's instruments: the instrument of force. Its use serves to restore the dynamics of the surplus, which is at the same time the dynamics not only of accumulation but also of the privileged-consumer society, since the two are inseparable in the system. The trouble is that this is done at the expense not of the few that consume much but of the many that consume little.

The political and social cost of the re-establishment of the privileged-consumer society is therefore huge.

The march of democracy, then, would appear to be incompatible with a society of this type. Once certain structural phases have been left behind, the political process tends to move faster than the economic process, since the latter, although very intensive, evolves within the narrow confines of the consumer society, whereas advancing democracy strives to extend the benefits

of development to large social groups to which the play of market laws is unfavourable.

It is true that the crisis of the system becomes more remote when abundant resources obtained by the State from the exploitation of a country's natural wealth make it possible, over a more or less prolonged period, to meet at one and the same time the demands of the privileged strata and the redistribution pressures of the disadvantaged labour force. But not on that account does the tendency to exclude the lower strata disappear.

It is not surprising that the upholders of economic liberalism attribute the crisis to the violation of market laws by the intervention of the trade-union and political power of the labour force. This is a fundamental misconception which it is worth while to expose forthwith, in order to give a clearer idea of the nature of the system, although in due course we shall expatiate further on so important a subject.

Liberalism resorts, of course, to neo-classical theories to substantiate its assertion. But these theories overlook the structural phenomenon of the surplus, since they argue that an increase in productivity, in a fully competitive system, will spread its influence throughout the community via a rise in the pay of the labour force and a fall in prices. It is my aim to show that the surplus is generally retained and augmented under the sway of market laws, even though competition may be fully and unrestrictedly operative.

The surplus derives from the economic power of the upper strata and forms an integral part of the system, as does likewise the power of participation of the labour force at advanced stages of its evolution. It is true that the conflicts which this involves inevitably lead to a crisis. But such is the system with its exclusive and conflictive tendencies.

To these tendencies neoclassical theory

turns a blind eye. It maintains, on the contrary, that the system, left without interference to its own devices, tends to strike a balance wherein both economic and social efficiency are achieved. The line of reasoning followed is strictly logical, but it starts from unrealistic premises.

The fact that the neoclassical arguments are out of keeping with the realities of peripheral capitalism does not imply that they lack practical influence. Economic theories, indeed, are not as a rule accepted solely for their intrinsic value, but to satisfy interests and aspirations on the part of those who carry enough weight to impose them. Thus, when the use of force is invoked as a means of dealing with the crisis of the system, conditions become favourable to the application of certain principles of economic liberalism, suitably brought into line, however, with the interests and aspirations in question, and not always followed with intelligence and virtuosity. The only thing is that this belated refflorescence of economic liberalism entails the stifling of political liberalism.

Although both spring from the same philosophical source, they end in spectacular antagonism. Nor could it be otherwise, owing to the distortion of economic liberalism by the serious implications of that strange phenomenon, the appropriation of the surplus, so alien to the lofty spirit of its arguments.

4. *Centre-periphery relations*

This resurgence of economic liberalism likewise extends to centre-periphery relations, since neoclassical theories stubbornly disregard the structural disparities that make for external bottlenecks in the periphery, as well as the play of power relations, which exert so great an influence on the international distribution process under the hegemony of the centres, especially that of the main centre of capitalism. Nor is it other than incongruous,

although very understandable, that economic freedom is invoked in order to promote the expansion of the transnational corporations in the periphery, as if they were the most authentic expression of free competition in the peripheral markets.

The transnational corporations date a long way back into the past. Formerly they exploited the natural resources and public services of the periphery —and to some extent still do so— and now they are zealously exploiting innovations which in the centres are ceasing to be such. And their oligopolical characteristics are manifest.

Nevertheless, the transnationals could not have assumed so important a role in the periphery without the privileged-consumer society, although in their turn they have done much to place it on its exalted footing. In fact, a very strong bond of reciprocal interests is being forged between the transnationals and the advantaged strata.

Let there be no misunderstanding. This supremely important role of the transnational corporations should not beguile us into carrying its interpretation too far. If they were to vanish by magic from the periphery, the surplus would not therefore disappear, nor would the system be cured of its exclusive and conflictive tendencies. Neither would that event alone remedy the structural disparities in centre-periphery relations. But the all-too-well-known phenomena of dependence would undoubtedly be mitigated.

We have already said in another study that if full use were made of the surplus for capital accumulation purposes, i.e., if the privileged strata earmarked a larger proportion of their income for accumulating more capital, instead of indulging in extravagant consumption, the rate of absorption of the labour force would be speeded up, especially in the lower strata, and distribution would be progressively improved. The system would approach

social efficiency. But instead of relying on its own accumulation effort, it resorts to the transnationals, so that others' hands may do what could largely be done by its own, through full utilization of the surplus potential.

Whichever way one looks at it, if the advantaged strata accumulated more capital, the privileged-consumer society would not expand to so striking an extent; and the transnationals would not find such fertile soil for exploiting the innovations which give an exaggerated impetus to demand, if no such social aberration of peripheral capitalism occurred.

5. *The role of the market*

Economic liberalism assigns to market laws the leading role in the regulation of development. And its refutation frequently leads to a corresponding repudiation of the market.

I do not believe for a moment that the market is the supreme regulator of the economy. Nevertheless, it does have a great deal of economic and also political significance. This I unreservedly acknowledge in order to clear up possible confusions at the outset.

The market is invoked as a spontaneous mechanism for the allocation of capital and other productive resources, as a function of demand, and always provided that competition is working properly. But the demand in question derives from a particular distribution of income which, in turn, is the product of a specific socio-economic structure and of the power relations stemming from that structure and from the changes taking place in it. As we have already seen, this distribution is highly inequitable, and moreover, leaves a considerable proportion of the population on the sidelines of development. Market laws might therefore be said to represent a rational solution, though only for the pri-

vileged strata: it is by no means rational from the standpoint of the community at large, an assertion which of course involves a value judgement. And there can be no doubt that neither is rationality achieved when the trade-union and political power of the middle strata attempts to counteract market laws.

Nor is it possible to speak of the sovereignty of the consumer from the angle of demand. Under a competitive system, nobody forces anyone to buy what he does not want; people buy what they want when they have the means to do so. But what they want is largely the product of the art of collective suggestion which is practised increasingly with the prodigious development of the mass communication media. Sovereignty subject to direction! A very clear case in point is the ambivalence of technique: it serves to inform, but also at the same time to deform. The negative side of this ambivalence is set over against the positive with respect to the sovereignty of the consumer. And there is no counterweight whatever in the mass communication media at the service of the consumer society.

Strictly speaking, the market has no social horizon. Under a system which had a horizon of this kind, that is, which would solve the accumulation problem on collectively rational lines and at the same time progressively reduce the great distributive disparities, the market might come to be an efficient mechanism.

Of course the way to give the market such a horizon would not be by changing its traditional name. Some liberal economists of the periphery nowadays talk of the social market economy; a fresh proof of the intellectual dependence prevailing in our countries, since that term was coined in very highly developed countries where poverty has been eliminated—save in a few of its strongholds— thanks to a long period of capital accumulation. Nevertheless, although the distribution struggle has

taken a disconcerting turn, the social content of development is very high in those countries. Could the same be said of the periphery?

Needless to say, the market is responsible neither for the great distributive disparities nor for the waste of capital accumulation potential which prevents the social integration of the lowest strata. The market cannot be held responsible; but neither can we talk of a social market economy if the major defects of development are reflected in it. The important thing is to ascertain what lies behind the market in the social structure.

Much more serious still is the incongruity seen to be when it is recalled that the use of force to bring the system back into smooth operation means sacrificing the consumption of vast social strata so that the upper strata may regain and even improve their position in the privileged-consumer society.

Nor has the market a time horizon. When enterprises calculate the combinations that are in their best interests they do not include in production costs the effects of their decisions on the ecological and human environment, or on the future availability of non-renewable natural resources. Their concept of economic efficiency does not generally stretch much farther than their immediate interests, which must be distinguished from the collective interest as viewed from a long-term standpoint.

In short, it is a mistake to blame the market for the faults of the system; rather is it the expression of those faults. This point needs stressing because it is sometimes maintained that to avoid those defects the transformation of the system would have to include the abolition of the market.

Such a step would inexorably lead to summit decisions as to what should be consumed and what produced. It implies, in fact, the abolition of economic freedom

—even that limited measure of freedom that the play of market forces permits.

6. *Change and development ethics*

The transformation of the system must give the market social efficiency, and, further, ratify the individual's essential right to be free to choose his work and express his consumer preferences: all this as an integral part of a broader human conception whose impairment cannot but be attended by very grave consequences. It is a question of one of the basic rights of man, vitiated though they now are by the socio-economic structure.

If the aim pursued were to abolish the market altogether, all the means of production would have to be concentrated in the hands of the State, so that it could adopt the necessary decisions on consumption, production and employment.

This socialization of the means of production, by handing over their entire management to the State, would endow it with invincible political power, totally at variance with the conception of a democratic society and of human rights, the attainment of which, in despite of great historical vicissitudes, counts as one of the loftiest achievements of Western civilization.

A fundamental distinction must be drawn between socialization of the means of production and the social use of the surplus for the purposes of capital accumulation and income distribution. Independent management of the means of production is perfectly compatible with this social use of the surplus. I am speaking of the independence of major enterprises in relation both to the State and to the private interests which at present hold most of the means of production in their hands.

Two centuries of belief in the efficacy of the market as a regulating mechanism

have prevented the emergence of a development ethic, which would seem to be an indispensable requisite in face of the ambivalence of technique. Thanks to technique, an almost unimaginable increase in human welfare has been achieved for most of the population of the centres. A Utopian dream has become reality. And the periphery has the singular privilege of enjoying access to all that the centres had to spend a long time involving, at the cost of considerable sacrifices. Technical progress has afforded us benefits that a few generations back would have been inconceivable. But all this has gone hand in hand with very serious and flagrant negative consequences.

The fact is that the private-interest motivation which is the driving force behind the application of technique is not calculated to resolve the problems of ecological deterioration or the irresponsible exploitation of non-renewable natural resources. Even if some futurologists exaggerate the danger that this represents, there is an undeniably essential need to try to envisage the future, in the light of very potent ethical considerations.

Neither market forces nor politics, as a rule, look beyond immediate considerations. In the case of politics, attention is generally confined to the aspirations and interests of those who are already living on this planet, but no thought is given to its future inhabitants, though the future constantly draws closer to the present. Who are the representatives of those that do not yet exist? Only an ethical concept which introduces into politics a time horizon, a great sense of responsibility to the future, can provide an answer to this question.

What relevant knowledge we already have calls imperatively for foresight; and so does the knowledge that might be gained through scientific research. Voices fully authorized to utter such an opinion agree that biological research, in its present

phase, has reached a degree of potential for catastrophe with which it would be impossible to cope without the guidance of certain ethical principles.

A concept of moral responsibility in demographic questions is also required, since those who are not yet born are not yet represented either, and if that responsibility is not shouldered the future will bring with it grave problems of human coexistence.

The lack of moral responsibility in the face of a present whose evils are glaring, and a future which holds out both promises and threats, is leading to a tremendous frustration of development: a frustration which has not yet been reflected, either in the centres or at the periphery, in a change of attitude that may promote the transformation of the system.

As part of this change of attitude, the surplus too must be viewed in the light of a development ethic. It would then have to be asked: To whom does the surplus rightly belong? There is no scientific reply to this question.

Since the surplus consists in that part of the fruits of technical progress which is not transferred to the labour force because of the great heterogeneity of the periphery's socioeconomic structure, it might be thought that it is to the labour force that the surplus should belong. To which labour force? To that employed at higher levels of productivity thanks to capital accumulation? Let us assume so for a moment. If in the play of power relations the surplus were transferred to these workers, the capital accumulation problem would not thereby be resolved; rather would it be aggravated, and thus intensify the exclusive tendency of the system, to the serious detriment of the lower strata.

A Latin American sociologist, referring to these strata which the system fails to absorb, and which consequently do not generate a surplus, asserts that the system

exploits them by extension. In that case, if the surplus were distributed to the labour force absorbed in technological layers of increasing productivity, would this latter also assume the role of exploiter, by extension, of those remaining in the lower layers of technology, and therefore in the lower strata?

And in the case of a natural resource whose extraction, thanks to technical progress, requires a relatively small labour force, should the surplus thus obtained fall to the labour force concerned?

And what is the part played by the scientists and technologists responsible for the innovations that increase productivity? Should the surplus be assigned to those who are participating in the process today, or is it also the due of those who did so yesterday? If we were to adopt the latter criterion, would it not be somewhat like trying to do retrospective justice to those great artists of the past who lived and died in penury, while nowadays fabulous prices are paid for their works?

Here again there is no scientific solution. The solution is fundamentally ethical: to build up the surplus and use it for capital accumulation purposes in order to convey the advantages of development to all; and to do so, moreover, with a distributive discipline based on ethical considerations that could never justify the arbitrary element at present implicit in the play of power relations.

7. The attitudes of the centres

It must be acknowledged that the centres are increasingly aware of the serious problems deriving from the ambivalence of technique; but they obstinately close their eyes to the effects of technique when it penetrates into the socio-economic structure of the periphery. Of course they attach

importance to its enormous potential for human welfare, but not to the new and intricate problems which it poses. Among us, too, very few have come to be convinced of the contradictions involved. I have no hesitation in saying this, for the deeper I go into these questions, the less I share certain attitudes on the part of those who seek to absolve us of our own moral responsibility by laying the blame for all the evils of the periphery upon the centres.

Responsibilities must be shared. And the brunt of them must be borne by the powerful. In this case the powerful are not only the centres but also those who enjoy in the periphery the privileges of the consumer society.

To put it bluntly, the responsibility for transforming the system is our own. But the discharge of this responsibility, extremely difficult in itself, would be much more so still if the centres were to shirk their own responsibility for co-operation, which, after all, apart from its moral aspect, is also a matter of their own economic and political interest, if they look far enough ahead to rise above the short-term interests by which they are ruled.

There are few symptoms of their having any inclination to do so. Moreover, they are a long way from understanding the problems of the periphery, although understanding them is not everything. As U Thant, used to say, their respective positions are very well understood both by the spider and by the fly caught in its web!

In the thirty years of CEPAL's existence I have watched a whole procession of uncomprehending attitudes on the part of the centres and the periphery alike. And something more than uncomprehending, for in the case of the centres they were accompanied, especially in the early days, by a certain intellectual condescension, if not arrogance, *vis-à-vis* the initial efforts to achieve authenticity in the interpretation of our own development phenomena.

In those early days the old theory of the international division of labour prevailed, and was fully endorsed by the periphery; hence CEPAL's thesis of industrialization as an indispensable requisite for development.

Equally serious was an attitude which is far from having disappeared, and which consists in selecting some partial and fragmentary aspects of development on which to preach 'sound doctrine', sometimes, often in fact, in admonitory accents.

The solution of the development problem, we were told over and over again, is a question of population. Take deliberate measures to influence its growth, and leave the forces of the economy free to act, with the transnationals to help them on! In this way the need for financial co-operation was also evaded. Did not a leading figure in the United States say that one dollar spent on birth control was worth a thousand dollars in contributions of international resources?

Next it was the turn of education. Who can deny its significance, not only economic but also cultural? But in this fragmentary view of a global phenomenon it was often forgotten that the education problem could not be dealt with or resolved outside the context of development and of the inescapable need to speed up accumulation and alter the composition of capital.

8. *The discovery of peripheral poverty*

The accent has now been placed on critical poverty and basic needs. Some economists in the centres have belatedly discovered this phenomenon of poverty. They are, of course, unaware that with reference to Latin America critical poverty is another of the serious problems that we have sought to highlight, above all in various CEPAL reports dating from some time back; and among them the last that

it fell to me to present to the governments, in the year 1963. I do not hesitate to reproduce here what was stated then:

"On the basis of conjectural data, it may be estimated that about half the existing population has a tiny average personal income of 120 dollars a year. And this vast social aggregate accounts for only about one-fifth of total personal consumption in America, showing the highest coefficients of undernourishment, poor clothing and worse housing, as well as of disease and illiteracy; and, at the same time, the highest rates of reproduction.

"It is here that the development effort must primarily be concentrated. The notion, which dies hard, that development takes place spontaneously, without a rational and deliberate effort to achieve it, has proved to be an illusion, both in Latin America and in the other peripheral regions of the world. For a century now our economies have been linked to the international economy, and fifty per cent of the population is still stagnating in pre-capitalist conditions which are incompatible with its growing economic and social aspirations.

"Even so, average per capita income in Latin America is appreciably higher than in other peripheral regions, and thus affords an advantageous starting-point for the realization of what is no longer a utopian dream; the eradication of poverty and its inherent evils, by virtue of the tremendous potential of contemporary technology and the possibility of assimilating it more quickly than was the case with the capitalistic evolution of the more advanced countries.

"However, this rapid penetration of technique demands and brings with it radical changes: changes both in the pattern of production and in the structure of the economy which could not be effectively brought about without a basic reform of the social structure".³

Language of this kind might have been described as extreme in those days of lively ideological contention between the two superpowers, reflected as it naturally was in the mirror of imitative peripheral capitalism.

When this question is raised in the centres its deep significance is seldom grasped. Judging from the copious literature on basic needs that has appeared of late, I greatly fear that the intention is to deal with the problem of poverty in isolation, perhaps with a praiseworthy measure of philanthropy, but thereby sidestepping the fundamental issue of the transformation of the system and international co-operation.

Since the time of which I was speaking, however, a lot of water has flowed under the bridges, and today we have Mr. McNamara, President of the World Bank, drawing the attention of governments in moving terms to the persistence of poverty alongside prosperity, even in peripheral countries where the rate of development is high. And in his persuasive address Mr. McNamara eloquently declares:

"Not only are the central public services often out of financial and geographical reach of the poor, but such facilities as are in place may be so inappropriately designed as to be virtually irrelevant to their needs; impressive four-lane highways, but too few market roads; elaborate curative-care urban hospitals, but too few preventive-care rural clinics; prestigious institutions of higher learning, but too few village literacy programmes.

"Public services that are not designed modestly and at low cost per unit will al-

³ CEPAL, *Towards a Dynamic Development Policy for Latin America* (E/CN. 12/680/Rev. 1), United Nations publication, Sales No: 64.II.G.4, pp. 3-4.

most certainly end by serving the privileged few rather than the deprived many."¹

Absolutely true. But a further step needs to be taken along this road on which the President of the World Bank has made so timely a start. The extravagances that so rightly cause him concern go along with the privileged consumer society. The problem of poverty cannot be effectively combated unless the brakes are energetically applied to that society in order to accelerate the rate of domestic capital accumulation, and unless new relations with the transnationals are established.

I am not suggesting that Mr. McNamara overlooks the need for capital accumulation. On the contrary, he more than once stresses the necessity of speeding up its pace. The President of the World Bank has shown that he really has a clear and vigorous conception of peripheral development and of its international co-operation requirements.

I am inclined to think, however, that his choice of rural poverty as the keynote of his address perhaps reflects his disconcertment at the persistent reluctance of the centres and the periphery to face up resolutely to the basic problems.

And in the centres there are a good many who believe that to combat critical poverty with a modicum of international resources would have the merit of mitigating the periphery's tenacious insistence on the need for a new international economic order.

Of course, to eliminate rural poverty, agricultural productivity must be increased and substantial changes in the land tenure régime must also be faced. But here comes into play a universal law,

well-known and alien to economic systems, i.e., that an increase in productivity over and above certain fairly narrow limits creates a labour surplus; and these redundant workers could only be absorbed if the rate of capital accumulation were stepped up in industry and in other activities. Furthermore, how would it be possible to raise the productivity of the marginal workers of the periphery, from hawkers and peddlers to bootblacks? A problem of absorption in higher-productivity layers of technology!

In the lower strata there is, of course, a potential demand for goods and basic services; but that does not mean that it will be converted into effective demand, since incomes are very small. And they are small because the labour force in these strata is working in very low-productivity layers of technology. What is more, the labour force already absorbed in technological layers with higher productivity has been unable to raise its income correlatively because of the regressive competition of the manpower left in the low-productivity layers or in the ranks of the unemployed.

It is therefore essential to shake off the far from uncommon propensity to single out particular aspects of an overall problem. And the worst of it is that this mistake is sometimes committed by people of intellectual authority. Perhaps the following reminiscence may serve to illustrate the point.

When I visited a number of governments on the eve of the first Conference on Trade and Development, I went to a meeting in the Department of State in Washington, at the end of 1963, if I remember rightly. As I urged, among other requirements, the need for the periphery to undertake and expand industrial exports under the aegis of a preferential régime, an eminent professor, well-known for a book on development that was in vogue for a time, raised an objection in roughly the following terms:

¹ Address by Robert S. McNamara to the 1977 Meetings of the Boards of Governors, *Summary Proceedings*, World Bank, Washington D.C., 1977, pp. 25-26.

Why think of that if the solution lies in increasing the productivity of agriculture, which is so low in the periphery? My reply was short, and based on the logical sequence of CEPAL's arguments: higher agricultural productivity, vigorous encouragement of industrialization, and expansion of industrial exports in order to achieve a degree of economic efficiency which could not be attained by merely going on with import substitution policy.

A simple and categorical conclusion. To insist separately upon any one of these partial aspects, although it has indisputable merits, incurs the risk of diverting attention from the global development problem, which calls for fundamental transformations, as well as for far-reaching changes in the conception of international co-operation.

9. *A global theory of peripheral development*

The foregoing comments once again demonstrate the need for a development theory such as will not only have scientific validity as a response to the peripheral situation, but will also clear the way for a rational transformation of the system: ethics to promote the transformation, rationality to carry it out.

Neoclassical theories will be of little use for that purpose. In them, as in others opposed to them, worked out in the centres, there are some theoretical observations which have helped to elucidate peripheral development phenomena, alongside some interpretations in which a disconcerting tendency to over-simplify is apparent. These theories are widely preached in the periphery in default of a complete and autochthonous interpretation of the phenomena in question: in default of a theory with scientific validity, a theory of global scope.

Global in a twofold sense: regarding peripheral development as an integral part of the overall phenomenon of capitalism, and, in addition, interpreting it as a process that is far from being merely economic. An interpretation of development cannot be confined within such narrow bounds.

In my inability to conceive of a purely economic theory of development, I come up against strong opposition on the part of the neoclassical economists who skim over the periphery's social structure and its great disparities with the structure of the centres as if they were walking on hot coals. In fact, they are blind to these structures, as they are blind to the structural phenomenon of the surplus; and they disregard social and political elements as exogenous factors which disturb the harmonious course of events.

As regards the first requirement—that of a global approach—the theories formulated in the centres make a false claim to universality. The neoclassicists, like the Marxists and the Keynesians, disregard the periphery. Perhaps they have no need to take it into account, since their starting point is a dogmatic notion that the interpretation of the capitalist process in the centres is valid for the periphery too: a notion which has a logical corollary, namely, that what is good for the centres will be good for the periphery as well.

Obviously, what is required is a universal development theory, not one theory for the centres and another for the periphery. A theory is needed that covers centres and periphery in all their complexity, analysing the structure of both as well as the wide disparities they present, the power relation that emanate from the different structures, and the processes of propagation and irradiation from the centres, with their effects on the imitative capitalism of the periphery—processes which develop under the hegemony of the centres,

especially of the main dynamic centre of capitalism.

The development of peripheral capitalism is part of a universal manifestation of the evolution and expansion of technique, which in the past originated, and still ceaselessly continues, in the great capitalist centres. Hence our centre-periphery model, far from being a static conception, has been gradually enriched with new and deeper contributory elements.

I said a little earlier that development could not be confined within the narrow bounds of an economic theory, since in it intervene technical, social, political and cultural factors, in addition to those of a strictly economic character. If methodological considerations have led theorists to examine them separately, prompted at times by an understandable itch for theoretical specialization, the time has now come to deal with them in all their intricate complexity and elucidate their inter-relationships. And this must be done in order to get closer to the reality which it is sought to transform. To talk of economic solutions in relation to peripheral development without taking into account the other components referred to above, as is the habit of those addicted to neoclassical theory, is a tragic error from which, unquestionably, we are not exempt at the present day. Let the political and social obstacles hampering the free play of economic forces be removed—it is once again urged—and the system will become perfectly efficient! The only trouble is that thus to attain the plenitude of economic liberalism and surmount the crisis of the system entails the sacrifice of democratic liberalism, with all that it means for individual liberty and the validity of human rights.

10. *Need for new options*

However, this political regression cannot continue indefinitely, because of the very

wear-and-tear of the use of force and the reactions this brings in its train. Sooner or later the return to democratization becomes inevitable. But if the process is not accompanied by a substantial transformation of the system, I greatly fear that it will once more end in an interplay of power relations which, with the passage of time, and not much time at that, will again upset the regular functioning of the economy and bring about social disintegration.

I am deeply concerned lest the system, because of its serious imperfections, may have its outcome in a succession of political cycles, with periods of democratization followed by periods of political repression and aggravation of social inequality.

In face of this disconcerting prospect a heavy responsibility is incumbent upon those of us who have to do with peripheral development phenomena: a responsibility which we are very far from having effectively shouldered hitherto. But what options have we been able to present to the political decision-makers and to the agents of force? Only two extreme alternatives: that of economic liberalism, which inexorably demands the sacrifice of democratic liberalism; or that of transferring the means of production to the State and concentrating their management in the hands of those who hold political power at its summit levels—a political power which thus becomes unassailable.

Under the first of these options, the democratization process is suspended. Under the other, it is replaced by a fundamentally different conception of the political régime and of human rights.

Thus it is easy to understand the tormented perplexity of those who believed in the feasibility of the advancement of one of humanism's greatest conquests, which, despite the inestimable values implicit in it, has not yet found expression in a distribution ethic. On the contrary, any such ethic the system flagrantly disregards.

It would seem that new lines are now being opened up in the evolution of *avant-garde* political thought. The concept of the dictatorship of the proletariat, or whatever it may be called, is being abandoned, and in its place the concept of democratic pluralism is gaining strength. But will pluralism be possible if economic and political power are concentrated in the hands of the few that direct the whole system?

Long experience and earnest thought have led me to the conclusion that this concentration of the means of production and their management is incompatible with the progress of democracy. We cannot, therefore, shirk the responsibility of which I spoke. A new way must be sought to reform the system on the basis of a strong sense of economic efficiency and distributive equity, and, at the same time, of observance and progressive reinforcement of the essential principles of democratic liberalism.

It is the option of an all-embracing synthesis which cannot be much longer deferred.

Unquestionably, this calls for changes in the power structure, since no radical transformation could be brought about without them. But what is to be done afterwards? In what does the transformation of the system consist? This is the question that must be discussed with lucid objectivity, though not, of course, without deep human feeling too. But it must be done in full knowledge of the system that is to be transformed, in precise awareness of where its great defects lie.

The object of this second article of mine is to contribute to the discussion in question, and at the same time subject my ideas to the refining influence of criticism, however implacable it may be. It follows my former article on "A critique of peripheral capitalism" and precedes a final one on a "Theory of change".

I

Preliminary outline

1. *Nature of peripheral capitalism*

Peripheral capitalism is essentially imitative, in contrast with the innovative capitalism of the centres. Under the hegemony of these latter, it opens its doors wider and wider to their capital and to their technique; to their consumption patterns and other cultural manifestations; to their ideas, ideologies and institutions.

These processes of propagation and irradiation are occurring within a socio-economic structure—that of the periph-

ery—which, as will be seen later, is fundamentally different from that of the centres, owing, among other factors, to the long time-lag with which development has been taking place.

Thus peripheral capitalism differs from that of the centres in major respects; it is evolving in accordance with its own specific character, however much it may propose to do so in the centres' image and likeness.

The peripheral socio-economic structure generates power relations which lar-

gely determine the striking disparities apparent in the distribution of the fruits of the increasing productivity that the propagation and irradiation of technique brings in its train. Herein lie the origins of the exclusive and conflictive tendencies that characterize the system.

The rate of development depends primarily upon the rate of accumulation of capital (in the shape of goods and training of human resources): capital accumulation which makes it possible to absorb in more efficient and higher-productivity layers of technology the labour force employed in preceding technological layers of lower productivity and efficiency.

2. The surplus and its structural significance

The disparities referred to above have their roots, in the last analysis, in the appropriation of the fruits of increasing productivity by the owners of the means of production—whether land or capital—in the course of the labour-absorption process.

These are essentially structural phenomena; in the periphery a considerable degree of heterogeneity exists in the socio-economic structure, in which there is a vast labour force with scant productivity and efficiency employed in lower layers of technology where traditional production patterns prevail. This prevents the labour force that is obtaining employment in higher layers, where technical progress is incessantly taking place, from increasing its earnings correlatively with the increase in productivity. Only a relatively small fraction of this labour force has the capacity to share spontaneously in the fruits of technical progress. Thus the owners of the means of production retain in their hands, in addition to their entrepreneurial remunerations, that part of the fruits of

higher productivity which we have called the surplus. The growth of the surplus, and its indefinite retention and circulation are of fundamental significance in the dynamics of peripheral development.

3. Concentration and inequality in possession of the means of production

Ownership of the means of production is also very unequally distributed, and this inequality is becoming more marked. The new technological layers which peripheral enterprises superimpose on the preceding layers generally require a steadily increasing amount of capital, which is more readily available, thanks to the surplus, to those in whose hands capital is concentrated in the upper strata of the structure. And since these new layers mean higher productivity, the resulting additional surplus which is partly earmarked for the accumulation of capital, thus tends to become more concentrated still.

Accordingly, concentration breeds concentration. In this way the economic power of the upper strata is strengthened in the spontaneous interaction of market laws.

The lower one looks down the scale of possession of means of production the smaller the surplus becomes, not only because the means of production decrease in volume, but also because this quantitative decrease makes it difficult to adopt more advanced techniques.

Ownership of capital is minimal in the lower strata, and consequently so is the surplus; the principal component of its owners' income consists in their meagre entrepreneurial earnings. The propagation of technique thus tends to benefit the strong at the expense of the weak.

4. Increasing income disparities

Similarly, the market laws make for more and more inequality in the earnings of the

labour force. Under their rule, the small proportion of this latter which is in a position to share in the fruits of higher productivity is that equipped with the ever-increasing technical, administrative, executive and professional skills demanded by the propagation of technique and the complexity of development.

The acquisition of these skills is largely dependent upon the social power of the upper and upper-middle income strata, whose financial position enables them to take advantage of the educational and training opportunities provided mainly by the State.

Participation in the fruits of greater productivity is on a diminishing scale. In the middle strata, while market laws operate unrestrictedly, the capacity for participation of most of the labour force absorbed in technological layers where productivity is increasing is all the smaller, the more it is exposed to the regressive competition of the many working in lower-productivity layers of technology.

Moreover, with the progress of development a tendency emerges to exclude this labour force employed in the less productive technological layers, where most of the lower strata in the social structure are to be found.

This tendency is fundamentally due to waste of the capital accumulation potential of the surplus. It is wasted because the strata favoured by the distribution pattern imitate the consumption of the centres, and because part of the surplus is siphoned off by the centres themselves. The strata in question are those that form the privileged-consumer society.

A pause must now be made for an explanation, in somewhat brief outline, which will give a clearer idea of the nature of the labour absorption process and the exclusive tendency of the system.

5. *The labour-absorbent role of capital accumulation*

The pace of absorption depends both upon the growth rate of productivity and upon that of reproductive capital accumulation. *Ceteris paribus*, if both rates were constant, that of absorption would also be so, as well as the growth rate of the total product.

The rate of increase of the surplus, however, would not be constant but rising. As we already know, part of the increment in productivity is not correlatively transferred to that great majority of the labour force which distribution leaves at a disadvantage. Consequently, the latter's income increases less and the surplus more than the product.

Now if the surplus were allocated in its entirety to reproductive capital accumulation, the rate of accumulation would rise, and so would the rate of absorption and, therefore, the growth rate of the product, even if the rate of productivity were to remain constant. But with this more intensive absorption of manpower from the low-productivity layers of technology the differences between technological layers would diminish. In this way two highly important effects would supervene; in the first place, the tendency to exclude the lower strata would be weakened; and, secondly, the capacity of the middle strata to share in the fruits of higher productivity would improve, as the labour force was absorbed in new layers of increasing productivity. The system would gradually acquire social efficiency.

But this does not happen, because of the persistence of the privileged-consumer society and its waste of the capital accumulation potential of the surplus. The more this potential is squandered, the feebler become labour absorption and the capacity for participation of the middle strata, under the rule of market laws.

6. *Redundancy and spurious absorption*

In addition to the tendency to exclude the lower strata, there is another aspect of the absorption problem which aggravates the social inefficiency of the system. I am referring to redundancy, *i.e.*, the situation of the manpower which, owing to the increase in productivity, cannot find jobs, or is turned off, and fails to be spontaneously incorporated into the system because insufficient use is made of the capital accumulation potential.

Redundancy is essentially due to the rise in the rate of productivity resulting from the incorporation of new layers of technology, and to the increase in the growth rate of the labour force.

The higher the growth rate of productivity, the higher the rate of reproductive capital accumulation will have to rise, if the rate of absorption of the labour force is to be kept constant. This could be achieved by virtue of the larger surplus which that increasing productivity brings with it. But here once again we come up against the privileged-consumer society and the siphoning-off of income by the centres. Since the increment of the surplus is dissipated in this way, instead of being allocated to reproductive capital accumulation, part of the labour force is left redundant in consequence of the higher rate of productivity.

If, as in the foregoing case, there is no improvement in the rate of reproductive capital accumulation, a rise in the growth rate of the labour force of course aggravates the redundancy problem.

7. *Economic efficiency and social efficiency*

The preceding explanations afford a better understanding of the dynamics of peripheral capitalism. The concentration of

the means of production in the upper strata, and the fact that the surplus grows more rapidly than the product, thanks to the rise in productivity, have a twofold result: the strata in question can expand their consumption and at the same time a high enough rate of reproductive capital accumulation can be achieved for the surplus to continue to increase. But these two effects, characteristic of the privileged-consumer society, are obtained, as has already been remarked, at the expense of the absorption of the lower strata and a better chance for the bulk of the middle strata, whose capacity for participation is only slight.

Thus a high degree of economic efficiency within the narrow limits of the privileged-consumer society may be accompanied by increasing social inefficiency.

It will now be understood why we have stressed the importance of propagation and irradiation from the centres in the social structure of the periphery. The diffusion of technique and the unequal structural distribution of the fruits of increasing productivity facilitates the propagation and irradiation of the centres' consumption patterns through the ever-strengthening influence of the mass communication media and the penetration of the transnational corporations. Meanwhile the techniques that protect and prolong human life make for a high rate of population growth, which generally rises all the more, the lower down one looks in the social structure.

In this structural distribution of the fruits of increased productivity great importance attaches to the economic power of the owners of the means of production concentrated in the upper strata, as well as to the social power of a modest fraction of the labour force in those and — principally — in the upper-middle strata.

There are undoubtedly individual differences, both among the owners and

within the labour force. Those who have the most drive, dynamism and individual ability rise above their social stratum and find a niche in the strata higher up. Thus they acquire economic and social power which augments their capacity for participation and their imitation of the consumption patterns of the centres. In this way they may contribute to the economic efficiency of the system while at the same time aggravating its social inefficiency.

8. *Diversification of demand and employment*

As productivity increases, the growth rate of the total product outstrips that of the labour force; this is, in essence, the meaning of development. And as the product grows, total income grows too, and so does demand, which is ceaselessly diversified by virtue of technical progress, in respect of both goods and personal and State services.

Since great disparities exist in income distribution, they are also to be found in the degree of diversification of demand; and the more rapidly the income of the privileged strata rises, the more widely diversified does demand become.

This shows how close is the link between structure and diversification, since the economic and social power of the privileged strata is, after all, the determining factor in the unequal growth of demand.

Diversification is accompanied by very important changes in the composition of the capital accumulated and in the employment of the labour force; and these changes in their turn influence power relations, income distribution and diversification itself. Such is the mutual interdependence of these phenomena.

As far as goods are concerned, diversification is relatively slight in respect of foodstuffs, for well-known reasons, whereas it is increasingly extending to industrial goods.

This disparity in demand accounts for the shift of labour from agriculture to industry, and also to those services which are diversified in consequence of the increase in productivity.

Thus agriculture and the agricultural labour force are apt to be relegated to the bottom of the social structure; low-productivity layers of technology prevail in them, and low social strata with tiny incomes. The waste of the surplus indefinitely postpones the absorption of this labour force into technological layers where productivity is increasing, while at the same time the relatively slow pace at which demand for foodstuffs rises, in comparison with demand for other goods, tends in itself to create redundancy in agriculture, which remains unremedied because of the system's insufficient absorption capacity. Situations like this occur mainly in agriculture for domestic consumption; and they are made worse by the increase in productivity which takes place in agriculture for export when external demand encourages capital accumulation and technical progress. The redundant manpower remains on the land or migrates to the towns.

Thus regressive absorption supervenes. This is not upward absorption in technological layers where productivity is increasing, but the kind of absorption that takes place mainly when the strata that distribution favours enjoy personal services which are wretchedly ill-paid. This regressive absorption would not occur if accumulation of reproductive capital were adequate.

9. *Deterioration of income relations*

The social inefficiency of the privileged-consumer society becomes apparent, therefore, principally in the agricultural labour force and in the personal services representing regressive absorption. The in-

come of these workers tends to deteriorate in the course of development, especially in relation to the income of the labour force which has some capacity to participate in the fruits of increased productivity. The deterioration is still more serious when the earnings of these strata relegated to the bottom of the social structure are compared with the incomes deriving from the surplus at the top.

Both this deterioration and the redundancy described above are likewise observable, although generally in a less acute form, in the production of goods which, not being very advanced, suffer the consequences of the shift of demand, as diversification proceeds, towards more technically refined and costly goods. And the relative prices of such goods may also deteriorate. This happens mainly in the case of agricultural commodities, especially when there is land available to increase production; and still more when productivity and supply outgrow demand. And if, in contrast, land is in short supply, its product —the agricultural surplus— is appropriated by the landowner in whose hands it is concentrated. Price relations will deteriorate very slightly or not at all, or may even improve, but income relations will always worsen as long as the absorption of the lower strata is indefinitely deferred.

10. *Reproductive and consumptive capital*

Diversification, given the social structure and the changes it undergoes, usually accentuates the exclusive tendency of the system. The more and more technically advanced goods in which it manifests itself require that the proportion of non-reproductive (or consumptive) capital be raised in the accumulation process.

Reproductive capital is that which helps to step up productivity and to multiply employment in so far as the fruits of this higher productivity are allocated to capital accumulation. Whereas non-reproductive or consumptive capital, instead of increasing productivity, improves the efficiency of goods as well as their responsiveness to considerations of social status and to the constant manipulation of the so-called sovereignty of the consumer.

Of course, the two forms of capital composition combine together and are closely interlinked. Diversification entails an increase in the proportion of non-reproductive capital, but this would not be feasible unless productivity and the surplus had already acquired very large dimensions by virtue of the accumulation of reproductive capital. This is what happens in the capitalism of the centres; whereas in the peripheral countries it is the inequitable income distribution that prematurely fosters this and other undesirable forms of accumulation of non-reproductive capital —private and public—, prejudicially to reproductive capital accumulation and therefore to the social efficiency of development.

A similar phenomenon is to be seen in the education and training of the labour force, which is consonant with the increasingly high-grade and complex skills that diversification demands as higher-productivity technique is propagated. This applies equally to labour engaged in the production of goods and to that employed in personal and State services. Training in these skills, in turn, necessitates increasing capital accumulation. But as diversification is intensified because of the inequitable distribution pattern, the proportion of consumptive capital used in the training of the labour force also oversteps the mark, and consequently its unfavourable incidence on the accumulation of reproductive capital is likewise excessive.

11. *Power relations and the sharing of the fruits of development*

The displacement of the agricultural labour force is reflected in an impressive degree of population concentration in the larger towns, and this not only because of the requirements of technique, but also owing to the great disparities in distribution. Demand and employment encourage urban growth, and this in turn attracts yet more demand and employment.

The middle strata, which thus expand in urban conglomerates as a result of technical progress and the diversification of demand, gradually clear the way for the democratization process, in despite of major obstacles and vicissitudes. And democratization is manifested in the increasing trade-union and political power of these middle strata.

Trade-union power helps to strengthen the weak sharing capacity which in the free play of market forces characterizes the labour force that is progressively absorbed by the higher-productivity layers of technology. It limits the regressive competition of the labour force employed in preceding technological layers and of its natural increment.

As the formerly disadvantaged middle strata strengthen their sharing capacity in this way, they participate more and more in diversification, together with the labour force which is placed in a favourable position largely by its social power. But the process does not extend to the lower strata.

In the market sphere, the principal source of increase in the productivity of the system is capital accumulation; and, in turn, the income accruing from this higher productivity gives great impetus to State services.

In the State, as the political organ of the system, power relations also play a decisive role in the distribution of its services as well as in their diversification. It is true

that the State performs very important services which are of importance to the whole community and not only to the power groups in the system, but even in this case these power groups exert great influence on the levying of the fiscal resources with which such public services are generally covered.

Apart from these latter, there is another form of distribution of State services, supplementary to that stimulated by market forces, but increasingly important. This supplementary distribution is carried out through political power and the changes which occur in its composition, reflecting those that take place in power relations concomitantly with the changes in the social structure discussed above. And in this way power relations exert a considerable influence on the use of the State's institutional machinery to obtain its services and share out the tax effort which pays for them.

Thus, the economic power of the upper and the social power of the uppermiddle strata allows them to resort to this machinery, on the one hand, to maintain their structural position and their capacity to appropriate the fruits of technical progress, and, on the other hand, to hold out against sharing the fruits in question with those lower down the ladder.

It has already been shown, however, that the evolution of the middle strata enables them to acquire, in addition to their trade-union power in the market, political power as well, with the advance of the democratization process. Thus these strata too can have recourse to the aforesaid institutional machinery, or to other new mechanisms, in order to strengthen their capacity for sharing in State services.

Over and above this participation, power relations affect the absorption of the labour force, its income, and State services, which in consequence of their own dynamics are prone to hypertrophic

growth. The again, part of the labour force which is not absorbed in the market sphere finds a place in State Services, where it is not really needed: this is a spurious absorption of groups which manage to secure it, with or without social power, by virtue of their political influence.

Lastly, political power enables some people to obtain rates of pay higher than those current in the market, or to gain income through forms of collusion between the spheres of the market and the State.

These reflections lead me to mention another of the important manifestations of political power, particularly that of the middle strata. I am referring to public enterprises, which develop when the State, outside the market sphere, sets up enterprises or takes them over. Here too power relations intervene, generally under the impulse, at least at first, of other motivations: those of restricting or preventing the incidence of capital from abroad, or of counteracting the economic and political power of domestic capital. Be this as it may, a public enterprise can hardly avoid falling prey to some who, thanks to their political power, use it as a means to spurious absorption or to incorporation into the privileged-consumer society.

No doubt there are public enterprises which succeed in containing political pressures; but those that are unable to do so help to waste the accumulation potential of their own surplus or of the surplus generated by private enterprise.

It is common knowledge that in private enterprise, according to the competitive circumstances, a criterion of economic efficiency prevails. But in so far as the accumulation potential gained thereby is wasted, the attendant result is the social inefficiency of the system.

The contest for the surplus assumes a different significance when the State has at its disposal abundant resources deriving from the exploitation of a natural source

of wealth. In this case it can meet the demands of the political power of the middle strata without sacrificing —rather, indeed, enhancing— the power to appropriate the fruits of increased productivity which the upper strata wield by virtue of their ownership of capital. Far from losing anything, the latter, in such conditions, usually avail themselves of their political power to defend their surplus against tax pressure.

The relegation of the lower strata continues, however, as this considerable potential for the accumulation of reproductive capital is frittered away in the exaltation of the consumer society. Still, some of the prosperity of those higher up filters down to them.

12. *The critical limit of pressure for participation*

As was stated above —and is worth repeating— the growth rate of the total surplus is higher than that of the product because a more or less significant proportion of the labour force has little capacity to share in the fruits of technical progress.

As changes take place in the social structure, however, the trade-union and political power of that disadvantaged labour force allows it gradually to remedy the weakness of its ability to obtain its share, and likewise the inadequacy of the system's absorption capacity. Thus it improves its private consumption and its consumption of State services, but it does so, as has been shown, at the expense of a growth rate of the surplus superior to that of the product.

Similar effects are produced by the exaggerated expansion of the State's public services, in which a considerable proportion usually corresponds to military expenditure, not dissociated of course, from the imitation of the technology of the centres. And to all this must be added the

spurious absorption of labour observable chiefly in the sphere of State activities.

Accordingly, as these various forms of participation evolve, a moment is reached at which the growth rate of the surplus becomes equal to that of the product, and the greater the extent to which political or trade union power spreads to the lower strata, the sooner will that moment occur. This is the limit beyond which the participation of the disadvantaged labour force cannot go without causing trouble, under the sway of market laws.

Within that limit the consumer society thrives, and could continue to function smoothly if redistributive power were to stop there; but in this there is no regulatory principle, any more than in the growth of the surplus. And once the capacity to share has been acquired, the formerly disadvantaged labour force tries to continue increasing its private consumption and its consumption of State services, as well as its employment in these, at the expense not only of the growth of the surplus but of the surplus itself. The long and the short of it is that the full florescence and the accumulation capacity of the privileged-consumer society are impaired, to the serious detriment of the dynamics of the system.

There are however institutional mechanisms whereby the owners of capital can recoup themselves for the decrease in the surplus: the same whereby they were able to appropriate the structural surplus and retain it indefinitely in their hands. These are monetary mechanisms, and however strong the opposition put up by the responsible authority, the economic and political power of the owners of capital prevails in the end. Inflation then becomes inherent in the system itself when it reaches an advanced stage of its development: social inflation, differing from inflation as it was known in the past, although the

two forms are usually found in close combination.

Inflation upsets the system and causes its social disintegration, and this sooner or later culminates in recourse to another of the State's institutional instruments: the use of force, determined either by a decision on the part of those who hold it in their hands, or by the influence of political power at the summit of the system. The object of the use of force is to overrule or suppress the trade-union and political power of the masses, thus seriously undermining their sharing capacity. In this way it becomes possible to re-establish the dynamics of the consumer society, with the further consequence that the upper strata are enabled to accumulate more capital and consume more and better-quality goods and services, the same being true of the favoured segments of the middle strata.

In any event, these results have a high social cost, apart from their political cost, since they are obtained at the expense of the greater participation in income and employment previously achieved by the bulk of the middle strata, as well as by the lower strata where trade-union and political power had spread to them.

Far be it from me to suppose that the use of force, when it supervenes at an advanced stage in the development of the system, accounts for all the political vicissitudes of the periphery; I only wish to stress one of the consequences of the restoration of the dynamics of the system, which is usually aggravated by unfavourable trends in the external situation.

I am therefore inclined to conclude that the democratization process has failed to solve two fundamental problems: that of the accumulation required for social efficiency and that of equitable distribution. Hence the evidence suggests that democratization has taken a wrong turning and is headed towards self-destruction.

13. *Determinism and deliberate action*

From all this the inference would appear to be that there is an element of determinism in the development of peripheral capitalism, which is strengthened in the course of the various stages of structural change. This determinism certainly does not rule out human action; but men act within the system and cannot escape from its internal dynamics. I am speaking, of course, of the system, not of its transformation, which is a matter of human decisions.

In the market sphere, those who have individual drive, capacity and dynamism help to increase the surplus already in circulation and continually expanding. Clearly, if this surplus were fully utilized the system would steadily gain in social efficiency, but the waste of the accumulation potential prevents this from happening; as a result of which, the system's absorption capacity is weakened, and the lower strata are excluded from the development process, as has so often been said.

In the sphere of the State, two opposite currents contend in the interplay of power relations. On the one hand, dynamic leaders emerge who represent the economic and social power of the upper strata, and who seek to channel certain State services and the corresponding investment towards increasing productivity and the surplus in the market sphere. They also try to contain or regulate the redistributive action of trade-union and political power.

On the other hand, structural changes allow dynamic individuals of another type to come to the fore, who represent the trade-union and political power of the middle and possibly of the lower strata in their endeavours to share in the benefits of development; these are the trade-union and political leaders who play a highly

influential part in the distribution struggle and its conflictive evolution.

Whether the system absorbs these latter dynamic elements, or whether they free themselves from their subordination to the upper strata, largely depends upon structural change. But in any event, nothing prevents the exercise of some individual influence either to moderate or to spur on the conflicts that arise within the dynamics of the system.

While the conflicts are taking place, those other dynamic individuals of course emerge, who have force at their disposal and use it. Herein too there is a measure of determinism, since in their intent to rescue the system from its state of crisis they are faced with only two major options, both of them lacking in authenticity and revealing the intellectual dependence of the periphery: economic liberalism or concentration of economic power in the hands of the State. Both alternatives, notwithstanding their diametrically-opposed character, are incompatible with the advance of democratization. They are an expression of the propagation and irradiation of ideologies from the centres which are quite out of keeping with the specific phenomena of peripheral development.

These ideologies also strike root in those who, in face of the great and increasing social disparities, and perhaps because they feel frustrated at not having gained a foothold in the system, propose to destroy it by violence; their violence on the one hand, and the counterviolence of the State on the other, end by shipwrecking elemental human rights.

14. *The laissez-faire State*

In the light of this brief exposition of the structural components of the system and the changes they undergo, and of the phenomena of propagation from the centres,

it may well be asked whether the image of the *laissez-faire* State, deriving from the ideas of economic liberalism, is in any way consonant with the reality of peripheral capitalism —that is, with the reality of its internal dynamics, to which we have confined ourselves for the moment, leaving its complex relations with the centres, under their hegemony, to be tackled later.

There is no such thing as the *laissez-faire* State. It cannot be said to exist when those in whose hands economic power is concentrated avail themselves of some of the State's institutional mechanism in order to seize or retain the lion's share of the fruits of technical progress; nor can it when, in the course of structural change, the labour force disadvantaged by market laws endeavours to improve both its private and its social consumption by resorting to State mechanisms, thanks to its trade-union and political power. Nor is it possible to speak of a *laissez-faire* State when recourse is had to the institutional expedient of force in order to free the privileged-consumer society from disturbances... Economic efficiency —although not always even that— at the cost of serious detriment to the social efficiency of the system.

15. *Structural disparity in centre-periphery relations*

Let us now take the same sort of brief glance as before at the intricate complex constituted by the centre-periphery system.

The great structural disparities between the centres and the periphery and the corresponding power relation, together with the propagation and irradiation so often mentioned, largely determine the nature of what occurs within the complex.

Capital accumulation, technical progress and demand tend to be concentrated in the centres by their very dynamics:

the centripetal dynamics of capitalism. And the same is also true of trade in manufactures encouraged by diversification. Thus trends emerge among the centres towards international integration of production of increasingly advanced goods: integration among equals or quasiequals.

The periphery lags behind in this process of generation of technical innovations with its dynamic effects on production and trade, because among non-equals no tendency to integration exists.

But, as everyone knows, the periphery is by no means backward in the propagation and irradiation of the more and more technically advanced patterns of consumption. Consumption —the consumer society— is therefore being rapidly internationalized, whereas in contrast formidable obstacles are encountered by the internationalization of production from the standpoint of foreign trade.

The spontaneous expansion of capitalism from the centres to the periphery, over and above the appendicular role of the periphery in respect of primary exports, is nothing but a myth; an outdated myth which is coming to life again of late with the image of the transnational corporations and the exploitation of their technical innovations.

The time-lag in peripheral development caused by centres' concentrative tendencies is reflected — although with a few exceptions — in a definite trend towards disparity between demand in the centres for primary goods from the periphery and demand in the periphery for goods representative of the diversification ceaselessly going on in the centres. Here again we find one of the effects of the great structural differences characterizing centre-periphery relations.

From this disparity stems the periphery's inherent proneness to an external bottleneck, aggravated by the siphoning-off of income mentioned before. And the

centres neither have taken nor are taking any serious steps to mitigate, not to mention eliminate, these external contradictions in the system.

Accordingly, the periphery is striving to counteract the disparity in question by resorting to import substitution, based on protection in view of the technical and economic superiority of the centres. But this protection is often carried much too far.

Substitution is not a static phenomenon; far from it. It moves towards saturation point in respect of products already covered, while the increasing diversification going on in the centres means that new lines of important substitution must be undertaken to counteract the trend towards a bottleneck.

But as these advances are made in import substitution, growing technical complexities emerge which also call for broader markets. Thus the gates are thrown open to the transnational corporations, and these first enjoy the advantages of the domestic market favoured by protection and then, with the incentives afforded by subsidies and other incitements, begin to develop exports.

It is a fact that, hitherto at least, the transnationals have displayed little interest in exporting to the centres, where successive innovations decisively influence their entrepreneurial action. In the periphery they really prefer to produce goods corresponding to earlier innovations, which in the centres are being left behind by others still newer. Nor are the centres making efforts to open their doors to imports of these and other goods which are within the reach of the technical and economic capacity of the periphery. Rather do the transnationals try to exploit those earlier innovations by exporting them to less-developed peripheral countries; and sometimes they succeed in doing so to a surprising extent. But in this way they help to shift the external bottleneck

from some peripheral countries to others, since the peripheral countries have made only modest attempts to construct an adequate framework for the development of their own reciprocal trade.

16. *Co-existence with the centres and the use of force*

In pursuance of their incongruous policy *vis-à-vis* the periphery, the centres promote and support the expansion of the transnational corporations. These share in the economic and political power of the upper strata, and even outrival it: and to this internal power is added the considerable power they wield in the centres. Thus, under the hegemony of the latter, new forms of dependence emerge, which induce a peripheral country to do what otherwise it would not, or not to do what otherwise it would.

Dependence has its counterpart in financial co-operation, which usually increases in proportion to the ease and room for manoeuvre with which the transnationals operate in the ambit of the periphery, or the responsiveness of the peripheral countries to other hegemonic interests of the centres.

Since the transnationals participate in the parry and thrust of power relations, they play an active part in the periphery's internal distribution struggle and in its movement towards a crisis. And as this crisis is gradually generated in the very dynamics of the system itself, with the advance of democratization opposition is also put up in the periphery against those forms of dependence in which the time-honoured hegemony of the centres is manifested, especially that of the principal dynamic centre of capitalism.

Accordingly, the conflicts in the system tend to spread outwards, often with the aggravating circumstance of an unfavourable external situation. Thus the erring peripheral country finds itself up

against the formidable constellation of interests which hold sway over the complex of centre-periphery relations. And in this dramatic climax of dependence punitive attitudes are often adopted.

By the use of force the sentiments of national identity which strive against dependence in the periphery can be temporarily stifled. Once relationships with the centres —relationships mainly confined to the privileged-consumer society— have been thus re-established, a broader horizon is opened up for the transnationals, allowing them to give new impetus to imitative capitalism, within the limited sphere of the privileged-consumer society.

An unsuspected dualism then comes to light in the centres. On the one hand, human rights are ardently defended

—not without a certain selectiveness—and, on the other hand, high praise is accorded to the virtues of a system which in order to gain great dynamic momentum, obstructs democratization in one way or another or even, when it is making real strides forward, suppresses it altogether, to the serious detriment of human rights.

In short, the linkages between the centres and the privileged-consumer society cause those major external contradictions which, when superadded to those of an internal character, accentuate the exclusive and conflictive trends of this type of society. An their combined effects lead to the use of force to reach a purely surface solution, affecting outward facts but not the inner heart of the structure, with all the extravagantly high social and political cost involved.

II

The surplus: its appropriation, growth and circulation

1. *A preliminary explanation of the surplus*

Thanks to the accumulation of capital in the shape of physical goods and training of human resources, the total product of the economy tends to grow faster than employment of labour as a result of the increase in productivity.

The fruits of this higher productivity—as already stated—are primarily appropriated by the owners of the means of production, and only a small fraction of the labour force has a share in them. The rest remains in the hands of the owners aforesaid in the form of a surplus, over and above the remuneration they receive,

where the case arises, for the performance of entrepreneurial activities.

We will now attempt to explain, in the first place, why the owners of the means of production are able to appropriate the surplus; next, why this surplus tends to remain in their hands; and subsequently, why it increases and continuously circulates in the system.

It is worth while to stress the structural origin of the surplus, because the way I put the matter in my former article may perhaps have left the impression that it was more in the nature of a monetary phenomenon. I will now try to rectify that imperfect explanation. The monetary aspect is undoubtedly important, but it relates

only to the manner of appropriation and retention, and not to the generation of the surplus itself, which is a process stemming from the social structure.

The structural origin of the surplus, however, does not account for its retention by the owners of the means of production. It is retained because the productivity increment is accompanied by an increase in demand which manifests itself in the monetary expansion inherent in the production circuit; and this greater demand prevents the higher productivity from bringing down prices, and allows the increase in goods in which it is reflected to remain in the hands of the owners of the means of production, in so far as it has not been shared by the more advantaged labour force groups.

In other words, the surplus is constituted by that part of the productivity increment which is not transferred to the labour force through the spontaneous action of market forces.

This phenomenon, at once structural and dynamic, is of the greatest importance in the development of capitalism; but we shall deal with it only in relation to peripheral capitalism.

As long as the disadvantaged labour force does not acquire sufficient capacity to share in the surplus, this latter continues to grow faster than the total product. Thus it attains, in the course of development, dimensions which enable the owners to expand their consumption, in imitation of the centres, and furthermore to introduce higher-productivity and more efficient techniques, thanks to the increase in capital accumulation.

As the participation of the labour force gradually slows down the growth rate of the surplus in relation to that of the total product, a limit is reached which cannot be overstepped in the dynamics of capitalism; be the size of the surplus what it may, its growth rate cannot fall below that of the product without producing

seriously disturbing effects. Suffice it to make this assertion for the moment in order to show the matter in its true perspective. We will only add that before that limit is reached the surplus has come to be an essential ingredient in the privileged-consumer society. And this means that no brake can be applied to its growth, since it is based on indefinite maintenance of the great distribution disparities.

Lastly, a word must be said in advance on the continuous circulation of the surplus. It should be recalled that the surplus is retained because the increase in productivity is accompanied by an increase in demand and the corresponding monetary expansion. This additional demand does not evaporate within the system, but continues to circulate, changing in composition concomitantly with the increase in goods that higher productivity has brought with it. Otherwise, prices would fall.

The present chapter will be devoted to discussion of these questions.

2. The structural phenomenon

It has already been pointed out that the owners of the means of production, principally in the upper strata of the social structure in which most of them are concentrated, primarily appropriate the fruits of the higher productivity which the penetration of technique brings in its train. Thus the surplus comes into being. We might define it as that part of the fruits of productivity which, in so far as it has not been shared by a part of the labour force in the spontaneous interplay of market forces, tends to remain in the hands of the owners of the means of production, over and above the remuneration for their entrepreneurial activities which they earn by their ability, initiative and dynamism, as well as in return for the risk they run.

Incidentally, in conventional theory

a clear distinction is drawn between this remuneration and entrepreneurial profits. The latter tend to peter out under the pressure of competition as the system moves towards dynamic equilibrium. Herein precisely lies the difference between profits, with their transient character, and the concept of the surplus, which is habitually retained in the manner that will be shown in due course.

In peripheral capitalism the owner of the means of production and the entrepreneur are, in most cases, one and the same person. But the tendency to separate them, so marked in the centres, shows signs of developing as concentration of capital takes place and the dimensions and complexity of enterprises increase. The owner continues to appropriate the surplus, even if he does not fulfil entrepreneurial functions.

And now, after this brief digression, let us pick up the thread of our analysis. The key to development lies in the propagation of the production technique of the centres by means of the accumulation of physical capital and training of human resources that the said technique requires.

Technique is propagated through the continual superimposition of what we have called layers of technology, in which the innovations of the centres are introduced. Albeit with the characteristic time-lag in relation to the centres, and with certain limitations, technological layers of increasing productivity and efficiency are added to preceding layers in which productivity and efficiency are less, and at whose lowest level precapitalist or semicapitalist techniques are still to be found. As this superimposition process takes place, the higher technological layers gradually absorb, more or less rapidly, the labour force employed in the technological layers immediately below, as well as its natural increment. But the earnings of the labour force thus absorbed do not rise correla-

tively with the improvement in its productivity. Great disparities can be seen. That comparatively small fraction of the labour force which can meet the increasingly exigent demands of the new technological layers in respect of skills is in a better position to share in the fruits of higher productivity. In these new layers the relation between demand for labour and supply is usually close; but the lower down the social structure one looks, the more supply expands in relation to demand, and sharing capacity dwindles until it becomes negligible in the lowest income strata. Such is the action of market laws.

The heavier the incidence of competition from the labour force already employed in preceding technological layers of lower productivity, the weaker the capacity to share in the fruits of technical progress becomes, with the descent from one level of the social structure to another; and the larger the proportion of unskilled or less and less skilled labour, the greater that incidence will be. Rightly considered, this is a socially regressive form of competition.

As long as a sizable body of workers remains in such conditions in the lower-productivity layers of technology, this situation will continue to represent a considerable obstacle to pay increases, even for the manpower that is absorbed in technological layers where output per worker is higher.

In passing, the difference between technological layers and income strata should be noted. In all layers, whatever their productivity per man, different income strata of the labour force are to be found, given the disparities in sharing capacity. But in the higher layers of technology, the upper income strata are predominant, whereas the low-productivity layers comprise mainly lower income strata. This point will be more clearly understood when the subject of structural change is tackled.

3. *An unrealistic hypothesis*

The significance of the rate of capital accumulation will now be realized. And here a foretaste may be given of what is to be said in another chapter. The primordial source of such accumulation is the surplus. And the more intensively the surplus is allocated to the attainment of this objective, the more the rate of absorption will be speeded up, and the greater will be the ability of the labour force to improve its income, in the play of market forces, correlatively with the increases in productivity.

In other words, were this to happen the differences in productivity would progressively decrease as little by little the higher-productivity layers of technology displaced those below them.

Undoubtedly, in this dynamic process of relative homogenization of technique there would also be a gradual lessening of structural disparities in earnings although not of functional inequalities, i.e., those which under the sway of market forces would correspond to the differences in the ability and dynamism of the individual workers and their contribution to the production process. Thus, with the passage of time — perhaps a long time —, something like the suppositions of the neo-classical economists would actually occur.

To put it another way, through the spontaneous play of market forces the congenital weakness of the bulk of the labour force in respect of sharing in the fruits of technical progress would be progressively remedied.

But this does not happen, because imitation of the consumption patterns of the centres, and the siphoning-off of resources by these, result in the waste of a large proportion of the surplus, that is, of the capital accumulation potential which productive technique brings in its

train. Hence the exclusive tendency of the system.

Stress must be laid on this point, since it constitutes manifest proof of the regressive significance of market laws in the social structure of the periphery.

It is generally urged, and often over-insistently, that the social exclusion in question is imputable to the tendency of the technique propagated from the centres to employ less and less labour. Then there is talk of the need to work out a technology appropriate to peripheral conditions.

There can be no doubt that if high-productivity techniques requiring less capital could be discovered, peripheral development could take a completely different turn.⁵ While not wishing to pour cold water on such hopes, I am inclined to approach this problem from another angle, although I do not overlook the desirability of a well-organized effort to select and adapt the techniques that are propagated from the centres.

In my opinion, the problem has its roots in the social structure into which the technique penetrates, rather than in the nature of the technique itself. For although it tends to employ less and less labour, thanks to its rising productivity, it also brings with it a steady increase in capital accumulation potential. If this potential were used effectively, technical progress would unceasingly multiply employment; but this does not happen. Much of the potential is wasted, and herein lies one of the more important phenomena of peripheral development, if not the most important of all.

⁵ A CEPAL interpretation that dates a long way back. See CEPAL, *Theoretical and practical problems of economic growth* (E/CN.12/221), Santiago, Chile, mimeographed text, May 1951. (Printed in Spanish, September 1952 and 1973.)

4. *Say's law and the dynamic process*

The difference between the neo-classical concept of entrepreneurial profits and the concept of the surplus has already been noted above. It should be recalled that according to neo-classical theory, profits tend to disappear in the long run as a result of inter-entrepreneurial competition, either because of pay increases or because of falling prices.

It has just been shown that in actual fact wages do not rise owing to the existing social heterogeneity. As has been repeated over and over again, much of the labour force fails, in the interplay of market forces, to obtain pay increases correlatively with the increase in productivity.

According to the neo-classical arguments, prices would be bound to fall in so far as wages did not rise. But this is not so, since demand expands. Whence does this greater demand originate? This is what we propose to consider now, refining upon the interpretation presented in our previous article.

Perhaps this explanation would be more readily understandable if we were to recall the law formulated long ago by Jean Baptiste Say, according to which supply created its own demand; or, in other words, the income generated in production was converted into demand for the goods produced.

But as in all these classical and neo-classical arguments, the time factor, among other, is overlooked. The income generated in the production of the final goods which at a given moment are on sale in the market creates demand not for those but for other final goods which appeared on the market earlier. This is a matter of the time it takes to complete the production circuit from its primary phase up to the sale of goods on the market. Owing to the time factor, today's supply

does not generate today's demand; it has generated demand before-demand, to put it briefly, not for today's goods, but for yesterday's. It is not the current supply that creates its own demand, but the income paid out by enterprises in the course of production circuits that will end in a future increase in supply. This is an essentially dynamic process.

Clearly, however, if the economy were stationary, if production remained constant, and if there were no change in the employment of labour and no increases in productivity either, the result would be equivalence between the income currently paid out and the current supply, production of which would have begun some time before.

But what would happen, in the meanwhile, if productivity were to be stepped up by the superimposition of new layers of technology, and also improved in the preceding layers? The income paid out to the labour force engaged in production of the future supply would simply not be sufficient to absorb the present supply, increased as it would be by higher productivity. Prices would then necessarily have to fall, in so far as earnings had not risen.

What prevents this from happening is the increase in employment, and in the corresponding income, required for the expansion of future production. Herein lies the origin of the larger volume of demand which enables entrepreneurs to appropriate the surplus.

The growth of employment is a dynamic process, not static as the classical and neo-classical arguments are wont to be. These arguments conceive of reality as a series of positions of static equilibrium succeeding one another through time. Keynesian theory itself went astray in this type of reasoning. This is not how things work out, and it is therefore necessary

to go rather more deeply into the matter, at the risk of indulging in repetition.⁶

5. *Production circuits under way*

The dynamics of development calls for successive increases in fixed capital for the purposes of expanding production. Each capital increment inaugurates a production circuit which takes a varying length of time according to the type of good concerned. Completion of that circuit is followed by completion of another, and so on in succession. We will leave aside these fixed-capital increments for the moment, and confine ourselves to the production circuits.

Each circuit, as has been pointed out, covers various stages, from primary production to the sale of final goods on the market. If we stop to look at any given period in these successive phases of production, we shall find one circuit ending in that period, while another is beginning, and others again are under way and will be completed in future periods.

In the upward movement of production each circuit calls for more employment than the one before, and, in consequence, generates more income and more aggregate demand. And this greater demand partly accounts for the fact that the prices of the goods whose circuit is completed do not fall correlatively with the increase in production due to additional employment and higher productivity.

A point worth emphasizing is that if demand for the goods which in a given period appear on the market at the end of each production process were determined by the income paid out in the course of that

same process, it would be insufficient to absorb the finished goods produced, and prices would fall correlatively with the increase in productivity.

But this does not happen, because demand for the goods appearing on the market is not generated in the corresponding production circuit but in the circuits next under way, which are designed to increase production and will be completed in future periods.

6. *Graph of appropriation*

For clarity's sake, let us have recourse to a graph. It is a rather rough approximation to reality, but does not impair the logic of the argument.

We will examine two different cases of increased production. In the first of these the increment is uniform, or, in other words, it neither increases nor decreases, and the corresponding production circuits are reproduced in constant form once the increase in final goods has been obtained. In the second case, production increments mount steadily, so that the new circuits give rise to higher income than their predecessors.

Each circuit is represented by horizontal bars, along which, in the course of the time taken by the process, the various phases succeed one another until in a specific period they end with the final goods that find their way on to the market. For example, circuit A begins in period I and progresses during the intermediate periods until it is completed in period V.

During the same period V circuit B is under way, which began in period II and will end in period VI, and so on in succession up to circuit E, which starts in period V and will be completed five periods later (not shown in order to simplify the graph).

The income paid out during period V, in the different circuits, is represented by the corresponding vertical bar 5.

⁶For the sake of simplicity, we will omit foreign trade and other transactions. Besides, these are topics with which we have dealt in an earlier study. At all events it should be noted that they make no essential difference to our line of argument.

In the case of uniform production increments, this vertical line is the same length as horizontal bar A, which means that the demand generated by the income paid out during period V is equivalent to the income paid out previously in order to produce the goods pertaining to the completed circuit A.

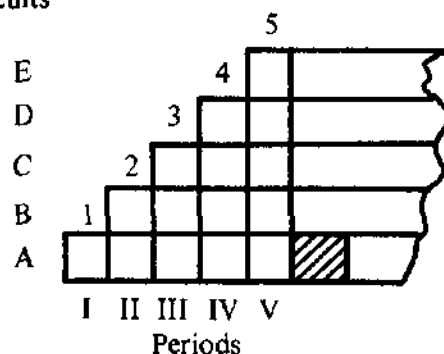
To revert to Say's Law. Supply A does not generate its own demand since the

income paid out in order to produce it was converted into demand for goods produced earlier. Those who earned this income during the course of the circuit did not wait for its completion before buying what they needed. On the contrary, the demand that absorbs circuit A's supply in period V is generated by the income paid out during the same period in circuits B, C, etc., whose output will become available in the future.

Figure 1

UNIFORM INCREMENT

Circuits

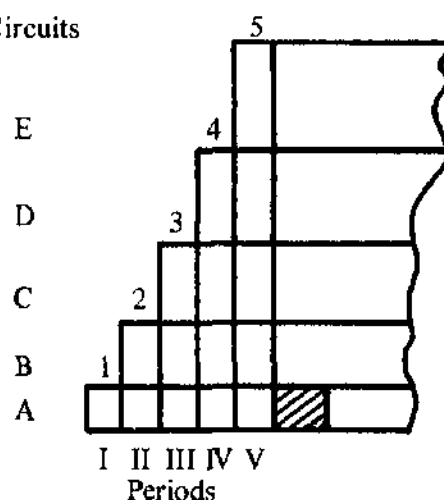


Consequently, coincidence between supply and demand is attributable not to the cause assumed in Say's Law but to the static conception of the problem which in this as in other cases has distorted the interpretation of what really occurs.

But what would happen in the postulated case of a uniform production increment if productivity were to increase? Simply this: the demand represented by vertical bar 5 would not be sufficient to absorb circuit A's supply augmented by the increase in goods deriving from higher productivity and represented by the shaded area added to supply A. This insufficiency would necessarily lead to a fall in prices.

INCREASING INCREMENT

Circuits



Let us now pass on to the second case, i.e., that of steadily mounting production increments, which are a closer approximation to reality. For this purpose, each of the bars representing a production circuit is broader than the one before, owing to the increase in employment and the income accruing from it.

Thus, the income paid out in the various production circuits during period V is no longer equal to the income paid out during the time covered by circuit A (which began in period I), but is higher, and all the more so, the more intensive the expansion of production under way for use in subsequent periods. Thus the demand generated by this income in period V exceeds the income

previously paid out in order to obtain the final goods produced in circuit A. And it is precisely this greater demand that allows the increase in goods resulting from higher productivity (and represented as in the other case by a shaded area) to be absorbed without a fall in prices.

Let us take a closer look at so important an aspect of the process under consideration, in which the key to our theoretical interpretation lies. The conclusion to be drawn from this exercise is, in my opinion, categorical. If prices do not fall in accordance with rising productivity, and in so far as the latter is not correlatively reflected in higher earnings, the reason is to be found in the expansion of demand generated in the circuits that are to increase future production.

This explains why the surplus remains in the hands of the owners of the means of production. We have already pointed out that the surplus is a structural phenomenon; but it could neither be appropriated nor retained without the increase in demand stemming from the dynamics of production itself.

7. The monetary expansion inherent in the production process

But how is this increase in demand paid for? Herein lies the monetary element in our explanation.

This too is an aspect of the question which is often passed over in conventional theory, as if monetary expansion could be considered separately from the production process. Monetary expansion is inherent in the expansion of production; and perhaps in my earlier article, in my attempts to incorporate it, I ended by over-emphasizing it, without realizing that I might be regarded as assigning a purely monetary explanation to what is, as I have said before, an essentially structural and dynamic phenomenon.

Let us now introduce the monetary el-

ement. Up to now, in the preliminary approximation previously presented, I have confined myself to saying that the increase in demand generated by the income paid out in the various production circuits under way made it possible to absorb the final goods corresponding to the completed circuits, plus the productivity increment. But the process is more complex, as we shall go on to explain.

Enterprises resort to monetary expansion in order to pay out the income generated in the production circuit under way. This operation is in line with the orthodox principles of the system and consonant with certain rules in which these principles are reflected.

The growth of income and the corresponding monetary expansion generate demand which must be at least sufficient to absorb the final goods emerging, augmented by the productivity increment, if this increment is not to be reflected in a fall in prices.

I said that it must be at least sufficient, because not all the demand created is directed towards the final goods in question. This is a highly important point which calls for emphasis. Part of the demand is deflected towards personal and State services. Thus it circulates in this sphere, becoming converted into reciprocal demand for such services, and only part of it returns to the sphere of final goods.

Accordingly, the demand which thus returns at the end of a given period, plus that created during the same period and directed towards the final goods emerging in the period in question, must be sufficient to absorb these goods, including the increment resulting from higher productivity.

But what is there to ensure this correspondence between demand and supply? There is certainly no exact adjustment mechanism. The process is rather one of trial and error which the monetary authority has to

undertake, thereby demonstrating its ability to act as a regulator in the spontaneous play of market laws (that is, when the trade-union and political power of the disadvantaged strata does not put up opposition to the economic and social power of the strata that are favoured in the income distribution process). Incidentally, the rules of the game are then very clear and effective, both when attempts are made to contain expansion and when it has been excessive, as happens if fixed investment, or private consumption or State expenditure and investment, are covered with increases in the money supply that overstep certain fairly narrow bounds. If we seem to be harping on a familiar theme, it is in order to maintain later, in the appropriate context, that these rules of the game are not applicable when the contest for the surplus, in the evolution of power relations, renders another type of inflation inherent in the system, i.e., social inflation.

To return to the point at issue, the monetary authority is guided by symptoms. If demand falls short of supply, the piling-up of final goods in inventories and the slump in prices induce it to expand the money supply further and to generate a corresponding increase in demand, either in so far as the growth rate of current production is stepped up or inasmuch as recourse is had to other forms of expansionist policy; and if demand exceeds supply and prices start to rise, a brake is applied to expansion.

These internal price movements are related to international prices. If the latter show an inflationary upward trend, as is the case at present, the higher nominal prices of exports and imports offer a wider margin for the growth of the internal surplus, which is no longer entirely due to productivity increments. It may be said in passing that the cyclical movements in the centres thus exert a powerful influence on the periphery. During the upswings the boom in demand

generally raises the prices of primary exports in relation to the price of the final goods which they are used to produce in the centres; and in this way the periphery's internal surplus is compounded by an increase of external origin. The opposite takes place during the downturns of the cycle in the centres.⁷

If the relative deterioration of export prices is persistent, part of the fruits of higher productivity in these activities is thus transferred abroad, with serious effects on peripheral development.

We shall revert to this point when discussing the crisis of the system.

It only remains to examine what part the surplus plays in this circulation of money which accompanies the movements of demand. We have just referred to the money which, in a given period, returns from the sphere of services to that of goods, and is added to the part generated in the latter during the same period and allocated to demand for goods. Its role is to absorb the supply of final goods, including the increment due to the rise in productivity over the period in question. In this way enterprises recover the money they have spent on paying the labour force during that period. And since the income flowing in is higher than that paid out during production of the goods that reach their final phase in the same period, the difference is returned to the enterprises in the shape of a surplus.

⁷ Attention is not devoted here to cyclical movements, which merit special treatment, although in close connexion with the subject-matter of the present article. In my first article I did briefly touch upon the topic. Suffice it to recall on this occasion that the amount of goods in process of production and of final goods deriving from them is governed by these cyclical movements, and so is the surplus. But this does not invalidate my interpretation of the structural phenomena of development.

The surplus thus received by enterprises is in its turn converted into demand for goods and services; and it circulates both in the sphere of services and in that of goods, like the income paid out either to the labour force or in the form of remuneration for entrepreneurial functions.

Accordingly, the surplus that accrues to enterprises in consequence of rising productivity reverts to them, one part through its conversion in a specific period into demand for final goods, and another part after having circulated in the sphere of services.

To this movement new surpluses are continually being added, thanks to successive productivity increments, and to the extent that these latter are not transferred to the labour force; and with these additions, what we have called the global surplus gradually increases. Consequently, it is renewed and grows, whether it is allocated to final consumer goods or to capital goods.

The growth of the global surplus is exposed to the risk of interruption owing to certain cyclical phenomena which prevent its development and lead to a temporary contraction, as, for example, when by virtue of the very mechanics of the system part of the surplus is used to pay out higher income to the labour force. At the present moment, however, I should prefer not to deviate from my main line of argument.

8. *Other characteristics of the surplus*

I referred above to the demand which is deflected from goods towards services: i.e., which for the time being abstains from purchasing goods. If this were not so, demand might prove to be greater than was required to absorb the final goods augmented by the increase in productivity, with the resultant familiar reaction on the part of the monetary authority.

It should be noted here that if recourse were had to savings, instead of to monetary

expansion, to pay out the income corresponding to the production under way, demand would be insufficient to absorb the final goods. This is, in my opinion, a situation typical of a certain phase in the economic cycle. Keynes attributed it to the tendency of the system to generate an excess of savings which reduced consumption, in contravention of Say's Law. His thesis, of course, referred to the centres, and is highly controversial. But a similar tendency to over-saving could not be ascribed to the periphery: yet another testimony to the fallacy of the assumption of universality implicit in the theories of the centres.

These somewhat tedious explanations show why the fruits of higher productivity are not reflected in a persistent price decline. This is prevented by the continuous growth of demand deriving from the production process itself. And as the surplus is converted into demand, it returns to the enterprises in the manner explained above, i.e., it is continually renewed in the process of circulation.

It is not, therefore, through a fall in prices that the fruits of technical progress are passed on to the community, as is assumed by the neo-classical school. Redistribution is effected in a very different and highly inequitable fashion, largely dictated by the interplay of power relations.

From another standpoint, it should be stressed that the composition of the global surplus undergoes continual change.

Demand is subject to constant transformations. It is diversified in consequence of the evolution of technique and income distribution, as will be seen in another chapter; and the surplus shifts all the time. Under the impetus of expanding demand, it favours those goods in respect of which the growth of demand is most vigorous, to the detriment of others where it is relatively weak. Such is the contrast between industrial products, in which diversification is incessant, and agricultural

commodities, where it is very slight. This question is further complicated by differences in productivity. But in any event, the increment in demand does not vanish and allow prices to fall, however unrestrictedly competition between enterprises may operate.

Restrictions on competition, which are frequently imposed, also contribute to the changes in the composition of demand but do not alter its total volume or the amount of the global surplus, except in the case of tariff protection, which, by allowing internal prices to rise above international price levels, increases the surplus at the expense of the income of the rest of the community. A case in point is that of an industrial product in respect of which the income-elasticity of demand is high and, at the same time, the increase in productivity is much greater than in the case of other goods in the aggregate. If competition were fully operative, prices would decrease in relation to those of other goods, which would benefit by the larger disposable income that consumers would thus possess. If competition were restricted, however, enterprises would be able to contain the downward movement of prices; but in neither case would the volume of global demand, the surplus or the overall price level be affected.

There is one very important instance in which the surplus does not shift but tends to crystallize. Land is a means of production of which the supply is limited, and whether it is rural or urban the characteristic phenomenon of land rent makes its appearance. The increase in global demand taking place in the dynamics of development also moves towards the land and raises land rent, a phenomenon too well-known to be dwelt on here. It should merely be stressed that in this way a part of the fruits of the higher productivity of the entire system is transferred to the landowners, simply because the land is in their hands.

Furthermore, the land rent deriving from the overall increase in productivity becomes larger when technical progress finds its way into agricultural activities themselves and raises their productivity. If demand for the corresponding goods is brisk, this rise in productivity is reflected in a surplus, which likewise crystallizes in the form of higher land rent. In contrast, when both land and labour are plentiful and the growth of demand is relatively slow, the productivity increment tends to switch away from agriculture through a fall in prices.

The expansion of overall demand, the limited amount of land available and, at the same time, urban concentration, account for the ceaseless upward movement of land rent in the larger towns. As in the case of land in rural areas, a part of the fruits of the higher productivity generated throughout the system is passed on to urban land likewise. And urban land rent also grows because of technical progress in transport and construction.

But in neither of these two instances is any part of overall demand or of the surplus wiped out.

The surplus has given impetus to capitalism in a very different manner from that assumed in neo-classical theory. I venture to assert that capitalism has never functioned as the latter suggests. It is invariably subject to a historical constant, namely, the appropriation of the fruits of technical progress in different ways, thanks to the concentration of the means of production in a few hands, at the expense of the rest of the community. Before the industrial revolution the surplus crystallized in the tenure of the land by economic power or by the power of the military or the Church; and since the industrial revolution, as a result of the prodigious technical progress to which this has given rein, it has been appropriated by the owners of the means of pro-

duction in which the innovations that constantly raise productivity are embodied.

A final reflection is called for at this point. I have already had occasion to say, elsewhere in this same article, that neo-classical thinking has not the merit of explaining development phenomena. When they discuss prices, the theoretical explanations of the neo-classicists are incontrovertible, as long as they confine themselves to the analysis of what happens in the development of enterprises taken separately, in particular as regards competition, productivity and the income-elasticity of demand for their goods. But there is a fundamental difference between such cases and the global phenomena occurring in the dynamics of development. Thus, when a single enterprise succeeds in improving its productivity and reducing its costs, impelled by the incentive of profit, it will increase its output, and that will bring down

the prices of its goods, if certain bounds are overstepped. To expand production it will be necessary to employ more labour and pay it more. But as a general rule this is of no significance in the rest of the economy, since its influence is virtually imperceptible. The fragmentary reasoning of neo-classical theory, therefore, remains fully valid. But when the expansion of production is general, as becomes the case in the dynamics of development, the series of pay increases received by the labour force prevents prices from falling, and a surplus is generated which is retained and circulates as already explained. To overlook this global aspect, then, represents a very serious defect if the reasoning of neo-classical theory is extended to development; the increase in total demand which is inherent in the dynamics of development should be introduced into the argument in order to reconstruct the theory of prices, taking due advantage of the valuable elements it contains.

III

Structural changes in employment

1. Capital accumulation and absorption of labour

The first step here is to explain in few words the role of capital accumulation—in terms of both physical goods and training of human resources—in the absorption of labour.

This labour-absorbent role is twofold. On the one hand, an increase in reproductive capital⁸ involves a direct or indirect

increase in employment. On the other hand, the additional income and the surplus thus generated are converted into demand for the goods deriving from this process, as well as for personal and State services; and in this demand the indirect effect of capital accumulation on employment makes itself felt.

In turn, the income generated in services gives rise to demand for goods and services. Thus there is a mutual interdependence between demand and employment, although the initial dynamic impulse comes from capital accumulation in enterprises.

⁸Enterprises use reproductive capital and 'consumptive' or non-reproductive capital. Until the time comes to deal with this aspect of the question, suffice it to say for the moment that the former can act as a multiplier of employment and accumulation; the latter cannot.

The growth of the enterprises' output is determined by the direct increase in employment of labour and the rise in productivity due to technical progress; and upon this fundamentally depends demand for personal and State services, and their product.

In services, technical progress is reflected mainly in improvements in their quality and efficiency, rather than in increases in productivity like those occurring in production of goods. But in so far as such increases in productivity do take place, this constitutes an autonomous factor of expansion of demand for goods.

From another standpoint, as personal income rises in production of goods, a process of diversification of demand goes on, in respect not only of goods but also of services. And this implies a characteristic tendency to raise the proportion of employment in services in relation to total employment.

We said at the outset that productivity depends upon accumulation of capital in terms of both physical goods and training of human resources. In physical capital are embodied the technical innovations which result in higher productivity and in better-quality and more efficient goods; while that same technical progress calls for training of the labour force in a wider range of more complex skills, without which the increase in productivity that should accompany physical capital would be partly thrown away.

It should also be borne in mind that certain personal services, as well as State services, contribute in one way or another to more effective utilization of capital, with the consequent increase in the productivity and efficiency of the system.

These preliminary explanations having cleared the way, we will now consider the dynamics of accumulation and employment.

From the standpoint of the propagation of technique, development consists in an endless superimposition of technological layers characterized by increasing

productivity and efficiency upon preceding technological layers where productivity and efficiency are lower. In the course of this process the latter tend to disappear; and the labour force which was employed in them is mainly transferred to technological layers of increasing productivity and efficiency, promoting the homogeneity of the structure.

In the periphery this process necessarily takes a fairly long time, in view of the large proportion of the labour force employed in layers of technology where productivity is very low and incomes are tiny, and even the use of semi-capitalist or pre-capitalist techniques is not uncommon. Despite the many decades that have gone by since industrialization gave its decisive push, the proportion in question is still very significant.

The size of the labour force that has to be absorbed reflects the heterogeneity of the social structure. There are some countries, including most of those of Latin America, where at the time when industrialization began there were large numbers of the labour force that had been traditionally employed in activities using pre-capitalist techniques and yielding them a mere pittance. In such countries, the absorption process was bound to be longer and more difficult than in others where the corresponding labour force was relatively small.

Let us now try to account for this state of affairs. At bottom, the persistence of so great a mass of lower strata in the socio-economic structure, over and above the exceptionally rapid increase in the labour force, is clear evidence of the insufficiency of reproductive capital. And on top of this, there are the effects of the increase in the rate of productivity which accompanies the new layers of technology, as well as of its improvement in the preceding layers.

To examine these various elements let us start from this very simple concept. Accumulation involves a rise in productivity, and this in turn makes it possible

to step up capital accumulation. The intensity of this accumulation process depends upon the proportion of the fruits of higher productivity which is allocated to capital formation.

As we have already seen, that considerable portion of the productivity increment which is not transferred to the labour force is the surplus. And the surplus constitutes the primary source of reproductive and non-reproductive capital accumulation. Accordingly, we will confine ourselves to it in the present argument.

The surplus has one characteristic which should be underlined because of its great dynamic significance. The global surplus, which is gradually formed by the aggregation of successive surpluses, tends to increase faster than the product under the rule of market laws.

For the sake of a better understanding of this tendency we will introduce the concept of rate or tempo. If the rate of capital accumulation is constant, and so is that of the rise in productivity and of increasing absorption of labour in new and higher layers of technology, the growth rate of the product will also be constant, if the product/capital ratio does not vary. Why, then, does the surplus grow faster than the product? The explanation is very simple and of a structural character. Owing to the socio-economic structure, the growth of productivity at a constant rate brings with it the familiar wide disparity in the distribution of its fruits, since, while that part of its fruits which is transferred to the bulk of the labour force increases less than productivity, the part which remains as the surplus increases more. And as the growth rate of the global product is constant, that of the global surplus will obviously be faster.

Constant rates have been postulated for simplicity's sake. But even if they were not constant, the distribution disparity would still be the cause of the difference between the growth rates of the product

and the surplus under the rule of market laws.

Herein lies the origin of the privileged-consumer society. For in the course of development the increase in the global surplus enables the owners of the means of production in the upper income strata to expand their consumption—at the expense of an increase in the consumption of the rest of the community—without reducing the rate of reproductive capital accumulation. But even if this rate remains constant, the growth of the surplus still outstrips that of the product.

Perhaps I may be allowed a brief digression here. Not all that part of the increment of the surplus which does not go to capital accumulation is deflected to the consumption of the upper strata. When market laws are opposed by the trade-union and political power of the disadvantaged labour force, this latter improves its capacity to share in the fruits of higher productivity. Only up to a critical point, however, beyond which the privileged-consumer society reacts by resorting to powerful State mechanisms, in an effort to defend itself and go on developing its dynamics, which can only be kept up by virtue of the system's great distribution disparities. Social inequality is inherent in the consumer society. But the time has not yet come to broach so important a topic.

To return now to our line of argument, we were seeking to explain why the lower strata are still so largely employed at very low levels of productivity. This situation persists because the rate of capital accumulation is not high enough for it to fulfil, to the greatest extent possible, its role of absorbing the labour force drawn from the lower strata in technological layers of increasing productivity. And the rate is not high enough because, as the surplus grows, the part which should be earmarked for accumulation is spent on consumption by the upper strata. The role of labour absorption can never be properly discharged

unless the rate of accumulation is raised as much as necessary by the allocation of an increasing proportion of the surplus to that end.

This is the serious consequence that attends the waste of the accumulation potential of the surplus occurring in the privileged-consumer society, in addition to the siphoning-off of income by the centres, which are linked to that society by such close ties.

But there is something more. The problem of absorption bears not only on the labour force that is stagnating in the lower strata but also on the growth of the labour force throughout the social structure.

This growth has been exceptionally rapid in recent decades, which implies that the rate of capital accumulation ought also to have risen to prevent aggravation of the absorption problem. But there is nothing in the system that will lead spontaneously to such an adjustment. Thus, the higher rate of population growth, as long as the rate of accumulation does not rise, means that manpower is left redundant, with the consequent accentuation of the tendency to exclude the lower strata from the development process.

The increase in the rate of productivity has a similar effect. It results in less absorption of labour per unit of capital, or, in other words, as the rate of productivity rises the rate of absorption proportionally decreases. And if the rate of accumulation does not increase, the volume of redundant labour which accompanies the higher rate of population growth becomes larger still.

Once again we are up against the waste of potential. If the increase in the rate of productivity were used to raise the rate of accumulation of reproductive capital, the absorption of labour could not only make up its leeway but could be carried farther. However, as this does not happen, not only do the members of the lower strata employed in low-productivity layers of technology

remain where they are, but they are joined by the manpower which has become redundant because capital accumulation is insufficient. It is in these strata, be it noted, that redundancy acquires the greatest proportions, both owing to changes in demand, as will be seen later, and because there the highest population growth rates are found.

I hope that these explanations will have shed some light on the nature of peripheral capitalism. The privileged-consumer society is the offspring of propagation and imitation of the patterns of the centres in a very different social structure. The marked heterogeneity of this structure, combined with the play of power relations, allows appropriation of the fruits of the technical progress brought from the centres to reach the height of inequality. And in the course of development this inequality makes it possible to imitate the more and more advanced consumption patterns of the centres and at the same time to propagate increasingly high-productivity and efficient techniques, which necessitate a larger proportion of non-reproductive (or consumptive) capital. All of which entails the immense social cost of exclusion and redundancy.

The socio-economic structure also affects the rate of population growth, since the propagation of the scientific and technological discoveries made in the centres, which protect and prolong human life, is of very unequal incidence. Where the proportion of lower strata with minimal productivity and tiny incomes is very large, the decrease in the mortality rate is not accompanied by anything like as intensive a reduction in the number of births as in the middle and upper strata. It is common knowledge that among the poor the psychosocial changes which in the course of development bring down the birth rate in the other strata do not appear to take place.

All this accounts for the limited ambit of the consumer society. Within those bounds

it may attain great prosperity and a high degree of economic efficiency which calls forth wondering admiration both at home and abroad, notwithstanding the persistence of the sub-consumer society at the bottom of the system.

2. The surplus and the social efficiency of the system

There are some who believe that by virtue of these achievements the system could also acquire social efficiency; but they do not pause to reflect that its dynamic exaltation is based precisely upon its lack of social efficiency. The point is not that the system is failing to work properly, but simply that it is like that; it is a socially vicious system.

And it is still more so when suppression of the trade-union and political power of the disadvantaged strata permits the squeezing of income improvements previously secured by virtue of their increased sharing capacity. The upper strata are thus enabled to expand their consumption yet more and at the same time to raise the rate of capital accumulation.

The social efficiency of development depends essentially upon the rate at which the higher-productivity layers of technology absorb labour from the lower layers, as was explained above. If this process were carried out satisfactorily, those lower layers would gradually disappear, and the layers immediately above them would successively take their place. And thus, in the course of time, as the formerly very high proportion of the labour force employed at lower-productivity levels decreased, the process of regressive competition which prevents earnings from increasing correlatively with the increase in productivity would be progressively set right.

How far could this process go? It is worth elucidating this aspect of the

question to obtain a better understanding of the nature of peripheral capitalism. If the surplus were used entirely for accumulation, an austerity-type capitalism would result, in which the owners of the means of production, rising above the temptations of the centres, would use for consumption purposes only the payment they received for their entrepreneurial functions.

The labour force would thus obtain a steadily increasing share in the fruits of higher productivity, thanks to the growing competition among enterprises to recruit the manpower required for their expansion, and also to the progressive weakening of regressive competition. According to the neo-classical method of reasoning, through this process the privileged-consumer society would gradually disappear, giving way to equitable consumption.

Some thought should be given, however, to the fact that the surplus is, too, a primary source of accumulation. And if it were reduced in this way, the accumulation effort would be increasingly weakened, unless the labour force assumed responsibility for accumulating capital. But there is nothing in the spontaneous operation of the system that might be conducive to substitution of this new form of accumulation for accumulation by the owners of capital.

In reality, the system does not function on these lines. No such austerity is to be found in peripheral capitalism, increasingly exposed as it is to imitation of the consumption patterns of the centres. The labour force, disadvantaged by the operation of market laws, has no way of sharing in the fruits of higher productivity but by the exercise of its trade-union and political power; and when it strives to go beyond the limit referred to before, the owners of the means of production do not resign themselves to the euthanasia of the privileged-consumer society. They

have at their disposal powerful means of reacting. But the moment has not yet come to deal with this subject.

It is plain to reason that for the dynamics of any system whatever capital accumulation is an indispensable requisite. Accumulation is a role that is performed by the surplus in peripheral capitalism; but the surplus also plays a second role, to the detriment of the first, namely, that of encouraging the consumer society, besides transferring to the centres part of the fruits of higher productivity.

The image of an austerity-type capitalism, in which the surplus is used to the utmost extent possible for accumulation, is manifestly remote from reality where the periphery is concerned. The owners of capital are subject to two opposite tendencies: one pushes them in the direction of increasing their capital accumulation in order to extend their economic power and expand their activities; the other promotes obsessive imitation of the consumption patterns of the centres. The first tendency may possibly prevail in an initial phase of development, but not afterwards, when the surplus acquires dimensions which allow consumption to be increased more intensively than capital accumulation. The rate of accumulation must be sufficiently high, however, to give momentum to the dynamics of the system.

3. *Diversification and changes in employment*

Let us now revert to the absorption process. We have described how the labour force moves up from the lower layers of technology to those of increasing productivity; but nothing has been said of the changes which simultaneously take place in employment, and which, in their turn, influence power relations, as will be seen in due course. We will now deal with this aspect of the question.

These changes in employment depend upon the variations which occur in demand for goods and services as per capita income increases and distribution disparities become more marked.

As demand expands, the goods and services towards which it is directed are incessantly diversified; the propagation of technique raises productivity, and this encourages imitative capitalism to adopt new patterns of diversification, which also derive from constant innovations in the centres.

This diversification takes place both in production of goods and services to meet market demand, and in State services, which are supplied as a result of political and administrative decisions.

In both cases power relations make their presence felt: in the sphere of the market, because it is upon them that income distribution mainly depends; and in the sphere of the State, because they considerably influence not only the size and composition of State services, but also the incidence of their cost, as well as the spurious absorption of labour, that is, absorption which does not respond to considerations of economic efficiency. In contrast, these considerations are predominant in the market sphere.

To go back now to diversification: as regards goods, it is a platitude that demand for primary commodities, especially foodstuffs, generally grows at a relatively slow pace, once the initial stage of development is over. For well-known reasons, diversification is very limited in the case of these goods, except as regards methods of processing.

In contrast, however, diversification would appear to be limitless in respect of demand for industrial goods. Here technique and demand influence each other as the process evolves in the centres; technical innovations, given impetus by

scientific progress, stimulate the diversification of demand, and diversification in its turn acts as a spur to technical innovations.

As the consumption patterns of the centres are propagated and diffused throughout the periphery, the diversification of demand presents a steadily increasing contrast between demand for primary goods, with a relatively low income-elasticity, and demand for manufactured goods, whose income-elasticity is relatively high. Hence the characteristic shift of the labour force from primary production to industry, and likewise to those services where similar diversification is taking place as technique advances, in personal and State services alike.

These changes in demand are matched by changes in the employment of the labour force. Obviously, employment tends to increase faster in activities where demand for goods and services grows more rapidly, to the detriment of employment in activities where the growth of demand is relatively slow. Thus in the dynamics of employment great shifts of manpower occur from what might be termed labour-expellent activities to those that are labour-absorbent. Such transfers also take place on account of the natural growth of the labour force.

4. *Labour redundancy*

In these movements a very important role is played by the growth rate of productivity. It should be recalled that the more this rate increases, the higher must the rate of accumulation rise in relation to the total product. What happens, however, as has already been explained, is that a more or less substantial proportion of accumulation potential is wasted in imitation of the consumption of the centres, as well as in the siphoning-off of income effected from abroad.

All this of course reduces the capacity of the labour-absorbent activities to employ not only the natural increment of their own labour force, but also the manpower displaced from the labour-expellent activities. And when in addition productivity increases in the latter, the adverse effects on employment in such occupations produced by the diversification of demand are augmented by those accompanying this higher productivity.

This is one of the gravest manifestations of the insufficiency of capital accumulation. Agriculture affords the most striking case in point. When higher-productivity layers of technology are superimposed and the rate of accumulation is not what it ought to be, part of the labour force is left redundant, and either remains unemployed or underemployed in the rural areas, or migrates to the towns to look for work. But since capital accumulation is insufficient in the labour-absorbent activities, the people thus displaced are not employed in higher-productivity layers of technology. At best, their relatively meagre income promotes the regressive absorption of labour, mainly in a proliferation of personal services requiring little or no special skill. Hence it can be seen that the existence of absorption is not enough to eliminate the problem of the lower strata stagnating in the sub-consumer society; it is also necessary that the absorption be effected at rising levels of productivity.

A situation similar to that of agriculture, although not exactly the same, is to be found in the intermediate and lower layers of technology in production of other goods — principally in artisan-type activities or low-productivity industries. In such cases demand usually shifts towards more advanced goods, to the detriment of employment in the activities in question, and this aggravates the redundancy problem if there is not sufficient absorption capacity.

In face of these facts, the neo-classical ideologists usually say that if there is redundancy in the system it is because wages are too high for the labour force to be absorbed. This extraordinary thesis, however, does not do justice to strict neo-classical reasoning, since according to this argument, if wages fell prices would have to follow suit, as will be shown in the relevant chapter. Only, unfortunately, in peripheral capitalism what really happens instead is that the surplus increases for the greater comfort and recreation of those who enjoy a place in the privileged-consumer society.

Obviously, then, the insufficient absorption capacity of the system is reflected in the deterioration of incomes in the lower strata of the social structure in relation to those in the upper strata, in so far as the latter share among themselves, in one way or another, the fruits of higher productivity.

A similar deterioration also takes place in the relative prices of certain primary products, in particular agricultural commodities, above all when available land, and, of course, labour, are so plentiful that production tends to outgrow demand, especially if productivity rises as a result of technical progress. When land is in short supply or demand is very brisk, the surplus created by the increase in productivity crystallizes, so to speak, in land rent. This point will be discussed again later.

5. Reproductive and non-reproductive (or consumptive) capital

Attention was drawn above to the influence of diversification on the exclusiveness of the system. The unequal distribution of income strengthens this influence and helps to bring about other structural phenomena with which we will now deal. We have

several times referred to the imitation of the consumption patterns of the centres at the expense of capital accumulation and the absorption capacity of the system; but what is involved is not only consumption in itself but also the capital used to produce advanced goods and services, when there are others less advanced that could satisfy the consumer requirements concerned, although not in exactly the same way. We are referring to what we have termed *consumptive capital*, to distinguish it from *reproductive capital*. Demand for these more advanced goods issuing from new layers of technology tends to eliminate the demand for goods from lower-technology layers which need less capital and often absorb more labour; and this elimination process is sometimes intensified by competitive prices. Of course, the replacement of one layer of technology by another is a characteristic of development, and is almost always desirable from the standpoint of individual satisfaction. But it is a premature substitution, satisfying those who enjoy, albeit in differing degrees, privileges in respect of distribution; and this goes on despite the fact that reproductive capital accumulation is insufficient to fulfil its proper role in the labour-absorbent activities.

The distinction referred to above is by no means a trifling matter. A little thought will show that in the evolution of the technique of the centres two trends exist: one directed towards raising productivity per worker, with which we have been concerned up to now; and the other, towards achieving more and more advanced and diversified types of goods and services with increasing capital inputs. In other words, there are techniques that multiply capital and employment and techniques that consume capital, at the expense of subsequent accumulation and of employment. It should be noted, however, that with the progress of technology the two kinds of

technique are usually combined, although in different proportions.

As has been remarked elsewhere, objections are often raised to the technology of the centres on the grounds that it tends to reduce employment because of the greater density of capital per worker. It is felt to be a technology inappropriate for the periphery. But no account is taken of the fact that it is precisely in the saving of labour that the inestimable virtue of these techniques resides, if the choice between alternatives, where they exist, is wisely made.

But it is only half a virtue, so to speak; for to make it complete, the fruits of higher productivity would have to be used, to the greatest extent possible, for the accumulation of reproductive capital in order to increase employment and income.

Let us now take a look at the reproductive capacity of capital. We may begin by assuming a specific capital increment, which is used to step up production with less employment of labour than in the case of the capital previously accumulated. Let it be further assumed that the fruits of this higher productivity are devoted to obtaining a new increment in reproductive capital, using the labour saved before. Thus the effect on employment would be compensatory. But from the dynamic standpoint there is something more important, namely, that the increase in reproductive capital will give rise to an additional increase in employment; and if the process continues on the same lines, not only compensatory but also additional employment will be generated. In other words, as the fruits of rising productivity are continuously allocated to increasing reproductive capital, employment will expand enough to absorb more labour than is saved through the higher productivity achieved.

Very different is the case of consumptive or non-reproductive capital. Let us

assume an initial increase in productivity whose fruits, instead of being earmarked for reproductive capital as in the preceding instance, are allocated to consumptive capital, that is, to means of production designed to put out technically advanced goods that will meet the requirements of demand better than before. The production of these consumer goods would also generate compensatory employment, but successive increases in productivity would not occur, nor would additional capital and employment be created as in the case of reproductive capital. There would be no progressive accumulation.

This seems the right moment for a word of warning which is not unimportant. It was assumed, in order to simplify our argument, that the fruits of higher productivity were devoted in their entirety to the production of reproductive capital goods. But this does not really happen, since only a part of them is invested in this way.

Thus the same compensatory effect on employment is not produced. But this is equally true for both reproductive and consumptive accumulation, and does not invalidate our previous line of reasoning. The only thing is that total compensation in respect of employment will take longer to achieve, and all the longer still, the smaller the proportion of the fruits of productivity earmarked for accumulation.

Let us go a little more deeply into the significance of these phenomena. In the technological progress of the centres there is a measure of correspondence between the two kinds of technique. In reality, the growing accumulation of reproductive capital, with continual increases in productivity, makes possible the progressive advance of diversification and of consumptive capital techniques. Obviously, it would be irrational to expand production of the same goods beyond a certain point. The diversification of goods incorporat-

ing more and more advanced techniques is an indispensable requirement of the dynamics of capitalism; and if this entails increasing the proportion of consumptive capital in the whole, the reason is that productivity has risen sufficiently to make that possible, due account being taken of distribution disparities.

A clear case in point is that of the diversification of durable consumer goods, where a number of gradations by efficiency are found, which call for increasing amounts of capital and more and more highly-skilled labour. The efficiency of a good consists not only in its intrinsic capacity to satisfy needs, but also in its ability to respond to other considerations. And we cannot in fairness ignore the criticisms levelled in the centres themselves against the ceaseless arousal of new requirements as a result of the prodigious development of the mass communication media, which are becoming more and more adept at manipulating the sovereignty of the consumer. In demand for these advanced goods and in their proliferation there are, too, elements of conspicuous consumption and social climbing. But even apart from all this, the propensity to prefer what is technically more advanced is very understandable.

It is a preference that largely depends upon personal income. The more inequitable income distribution is, the stronger will be that preference on the part of the more fortunate. And it is precisely herein that the serious incongruity of peripheral capitalism lies, since in order to produce increasingly advanced goods more capital per unit of output is required, and this is prejudicial to reproductive capital accumulation.

A less inequitable income distribution would obviously be favourable to those patterns of consumption which call for less consumptive capital.

Whichever way one looks at it, the diver-

sification described, costly in social terms, is effected at the expense of the reproductive capital which needs to be accumulated as intensively as possible, in order to absorb, at higher levels of productivity and income, the labour force employed in lower-productivity layers of technology.

It should be pointed out that these problems occur not only in the upper income strata, but also, to an increasing extent, at the higher levels of the middle strata. And to these the limited ambit of the privileged-consumer society is confined.

From another standpoint, diversification helps to accentuate the trend towards external disequilibrium. For while it is true that the position is eased by import substitution in respect of such goods, especially in the initial phases of the process, it is equally undeniable that the intermediate and capital goods required for domestic production have to be imported, and this tends to counteract the relief obtained, apart from the limits set by technology and fragmented markets. Furthermore, as diversification proceeds in the centres, part of the increment in peripheral demand which cannot be satisfied by import substitution is deflected centrewards.

Reverting to the line of reasoning I was following before these digressions, I would say that the consumer society displays other kinds of waste of accumulation potential which are due not so much to the advance of technique as largely to traditional considerations of social status. The most striking example is afforded by housing. Beyond a certain point, which could be determined only empirically, far too much consumptive capital is spent on housing, and this not only among the upper strata, but among part of the middle strata as well. Here the effect of income distribution privileges is manifest. Thus reproductive capital accumulation poten-

tial is wasted, and this, as happens in other cases of imitative consumption, weakens the labour-absorbing capacity of the system. This is one of the principal factors of frustration in the dynamics of peripheral capitalism.

Again, a high proportion of non-essential consumptive capital is common in State investment, both in infrastructure and in some types of public monuments. Certainly neither the sphere of the State nor that of the market is characterized by austerity in peripheral capitalism.

The waste of capital is not confined to production of goods alone. It is also observable in the field of highly-skilled personal services which are performed in the centres on increasingly advanced lines. Where medical services are concerned, for example, the training period for professionals involves considerable capital requirements, both because of the increasing efficiency demanded of such services by virtue of the progress of science and technique, and also as a means of limiting access to the profession with a view to enhanced prestige and bigger fees. Well-authorized critics have pointed out that capital investment for training purposes could be reduced if paramedical services were developed and certain procedures were simplified. But here too the distribution privileges of the upper and part of the middle strata make imitation of the centres possible, while the lower strata often lack the most elementary services. There are various professional services of which the same might be said.

The subject of education has also been much discussed. Eagerness to reproduce the institutions of the centres (often spurred on by the opportunities of skilled employment thus afforded) leads to the allocation of a disproportionate amount of capital to higher and secondary education, with the consequent neglect of the lower strata. And even when these have access to primary education, its results

are often very unsatisfactory because incomes are so tiny.

Thus the socio-economic structure exerts influence in two major ways. On the one hand, institutions for the training of personnel and provision of services are largely responsive to structural power disparities, and, on the other, these disparities substantially affect the capacity to use the services provided.

Let us now pause to examine the most important conclusions to be drawn from all this, as regards both goods and services. No one could deny the immense contribution that technique has made to human welfare, especially if present ways of life are compared with those of only a few generations back. But what can be denied is the desirability, from the standpoint of development, of imitating patterns of consumption which the centres have achieved thanks to their large-scale capital accumulation and to an average income whose level is several times higher than those attained in the periphery.

Nothing in the operation of the system is calculated to lead spontaneously to the solution of this problem. On the contrary, distribution disparities make for its aggravation, since in so far as they encourage diversification, the proportion of consumptive capital tends to rise at the expense of reproductive capital, to the detriment of the social efficiency of the system.

The social cost of all this is enormous, since the expansion of the consumptive capital required makes increasing inroads on the reproductive capital necessitated by the magnitude of the labour absorption problem. The whole process contributes to the exclusiveness of peripheral capitalism. Since advanced consumptive-capital techniques are spreading more and more, reproductive technique cannot penetrate in depth into the lower strata of the social structure. Hence too the conflictive element in peripheral capitalism, for as time goes by, the fruits of higher pro-

ductivity are no longer enough to satisfy the increasing pressure of consumption on the interplay of power relations.

In all this can be seen the interrelationship of these aspects of the socio-economic structure. The more and more advanced patterns of consumption of goods and services prevailing in the centres are

propagated throughout the periphery by virtue of the enormous distribution disparities resulting largely from the power relations that emanate from the social structure. And in their turn these phenomena react upon the social structure, with the consequences just described.

IV

Structural changes in power and income distribution

1. *The sharing capacity of the middle strata*

As will be recalled, under the rule of market laws the fruits of higher productivity are more and more unequally distributed. The following are the major aspects of this inequality:

—The income of the upper strata tends to rise faster than productivity, owing, on the one hand, to the appropriation of the surplus by the owners of the means of production, and, on the other hand, to the capacity of part of the labour force to share, thanks to its high levels of skill, in the fruits of increased productivity. It is essentially in these strata that the consumer society evolves;

—The income of the middle strata grows more slowly than productivity because of regressive competition, although the effect of the latter lessens as the scale of skills is ascended;

—The income of the lower strata, which have little or no share in the fruits of development, is minimal.

However, the sway of market laws over income distribution is not indefinitely maintained; rather is it a characteristic of the initial phases of development. As these phases are left behind and technique is propagated through industrialization and the development of other activities, the

middle strata gradually expand, both by virtue of their own natural growth and because they absorb labour from the lower strata. This process, the urban concentration of the labour force concerned, its increasing cohesion, the progress of education and the influence of the mass communication media, gradually pave the way for the march of democracy, although not without great difficulties. And as this happens the trade-union and political power of the middle strata begins to grow, albeit with very different degrees of intensity in different social groups.

This power, which gathers strength as development proceeds, counterpoises market laws within the sphere of the market and is also used to bring certain State mechanisms into action in order to offset or overcome the effects of those laws both on earnings and on employment.

Trade-union power is used chiefly in the sphere of the market to limit or eliminate regressive competition, push up salaries and wages and defend the improvement already obtained; and political power in the sphere of the State, to attain the following objectives:

—to procure and increase social consumption;

—to expand employment beyond the bounds set by economic efficiency in the market sphere, when State services grow to excess by virtue of their own dynamics;

—to secure spurious employment of labour, especially the labour force in the middle strata that is affected by the weakening of the labour-absorbent role of capital accumulation.

None of this applies to the labour force in the lower strata, inasmuch as it lacks political and trade-union power.

With the development of these various ways in which the disadvantaged labour force obtains a share in the fruits of higher productivity, the growth rate of its overall income rises, and, as the trade-union and political power of the strata in question increases, catches up with the growth rate of productivity. But this is the limit which cannot be overstepped without seriously jeopardizing the dynamics of the system; for if trade-union and political power tries to make the growth rate of income outstrip that of productivity, it will have to do so at the expense of the surplus, and this will have an unfavourable effect, not only on capital accumulation, but on the very privileges of the consumer society. This problem will be dealt with in another chapter in the context of the crisis of the system. The present reference to it is intended to give some idea of its dynamics in face of the structural changes accompanying the propagation of technique.

2. Different kinds of power in relation to income strata

In the following pages we will examine the significance of the different kinds of power that intervene in income distribution and redistribution. But stress should first be laid on the essentially dynamic nature of the distribution process, since structural changes take place incessantly, and so do changes in the power

relations emanating therefrom. We have just seen that as a result of these structural changes, alongside the growth of the economic power of the upper strata and of their capacity to appropriate surpluses and increase the amount of the global surplus, the trade-union and political power of the middle strata also develops. When this happens it would appear that the political power of the upper strata weakens, while the concentration of capital is maintained, and with it the ability of the owners of the means of production to enlarge the global surplus. Nevertheless, once the limit referred to is reached, political power, backed by the economic power which has continued to grow, finally asserts itself, and weathers the crisis of the system by resorting to the use of force.

Analysis of the different kinds of power and power relations may usefully be preceded by a word as to the correspondence between them and the income strata over which they exercise paramount influence.

Hitherto we have been talking about upper, middle and lower strata, but without defining the significance of these terms. For, as always happens when a quantitative scale is in question, it is impossible to establish a clear-cut dividing-line. The borderlines are manifestly indeterminate, but this in no way invalidates our reasoning. Furthermore, the point is one that will prove important in the praxis of change.

It should be recalled in passing that we have likewise discussed, and likewise in brief outline, the privileged-consumer society which is based on the upper strata, and the sub-consumer society of the lower strata. And there is no room for doubt as to what these extremes imply. But between the two extremes lies a whole range of situations. Where does the sub-consumer society end and the diversification of consumption in the middle strata begin?

The economic power bestowed by ownership of means of production is concentrated in the upper strata and, albeit with less dynamic significance, in the middle strata too. The possession of means of production diminishes with the descent from one stratum to another until in the lower strata it becomes relatively negligible.

Social power makes its appearance in a small proportion of the labour force which is incorporated partly in the upper strata, and, above all, in the middle strata and their higher income steps. It finds expression both through the skills whose technical complexity increases with the ascent of the scale of capacities, and through conventional skills. This is the labour force which has benefited in the course of development, although in degrees which differ greatly among its members.

In any event, the said labour force, precisely because it is in a favourable position in the absorption process, experiences a spontaneous improvement in its income as productivity rises. For that it has no need of trade-union power. But lower down the scale regressive competition begins to operate and trade-union power becomes a necessity in order to secure a better share in the fruits of higher productivity, especially where skills are rudimentary or simply non-existent.

As will be remembered, to the middle strata corresponds the labour force that has been absorbed in technological layers of rising productivity and is acquiring redistributive power. The workers that are not absorbed remain in the lower strata and have no such power; and those that do belatedly secure a very partial and incipient form of it move up into the middle strata.

Thus the play of power relations in respect of income distribution is reflected both in the sphere of the market and in that of the State. In the former, the possessors of economic power and social power accept the rule of market laws, while trade-union

power is used to offset the action of those laws. Similarly, in the sphere of the State, the relations between income distribution and these various kinds of power depend upon the way in which the latter are projected in politics. From the standpoint of participation in the fruits of higher productivity, the State is really an expression of those power relations into which the electoral weight carried by the labour force is increasingly incorporated, in so far as democratization goes ahead without hindrance in the middle and also the lower strata. These are relations that alter in the course of structural changes, and are eminently dynamic, not static.

The contention that power relations are the main determinants of income distribution by no means implies a denial of the influence wielded by the capacity and dynamism of individual figures who rise above the strata from which they have emerged, as will be seen in due course.

Let us now go on to analyse the different kinds of power. The only aspect of the matter with which we are concerned, be it noted, is that bearing on distribution phenomena. The socio-economic structure, of course, is much more complex; but to deal with it would be impossible without going beyond the strict confines of development.

3. *Economic power*

Economic power is mainly the prerogative of the owners of the means of production, who are increasingly concentrated in the upper strata. They are closely linked to those who handle the banking and financial machinery of the system and who frequently combine ownership of means of production with their own specific role.

Since the role of monetary expansion in the formation of the working capital of enterprises has already been explained, it seems needless to mention the importance of those who carry responsibility in the

banking world, especially when, in addition to the financing of working capital, recourse is also had to bank credit for the purposes of fixed investment or purchases of existing assets. And the limit is not far off beyond which these operations acquire inflationary characteristics, as fairly often happens in peripheral capitalism under the influence of dominant interests. These complementary activities, while they do not generate surpluses through a rise in productivity, make it possible to appropriate and retain them, and even to increase them on an inflationary basis, at the expense of the rest of the community.

Special consideration has already been given elsewhere to land tenure, which has not the same dynamic significance as capital accumulation. Urban land is not a source of surpluses; rather is the surplus generated in enterprises deflected towards it. But its owners share economic power with the owners of capital and with those who handle banking and financial machinery, so that they project their interests into the political field.

Allusion has several times been made to the concentration of capital, and the time now seems to have come to explain it. It has two aspects: on the one hand, concentration of the owners of the means of production, in relation to the rest of the community; and, on the other hand, inequality in the concentration process, since it takes place mainly in the upper strata.

The basic explanation of the first aspect lies in the fact that a high proportion of the capital of enterprises is accumulated through investment of a part of the surplus generated in the enterprises themselves, and also a part of the income of their leading executives, in which there is usually a substantial element of surplus. This does not mean that the other members of the labour force do not accumulate capital; they do, especially the middle strata, in the upper ranks of the labour force. A

considerable proportion of this accumulation, however, takes the form of consumptive capital which does not generate a surplus, the principal case in point being housing.

Moreover, it is readily understandable that, save in exceptional cases, enterprises have little interest in spreading accumulation among their staff, since that might imply, with the passage of time, the intention to share with the executive personal the decision-making power of the enterprises themselves.

Let us now look at the second aspect of the question, which we regard as highly significant. Why is concentration increasingly intensified in the upper strata of the owners of the means of production? In point of fact, the inequality that is manifested in these strata engenders a greater inequality. Those who possess most of the means of production are in a better position to accumulate capital; their situation is advantageous for introducing new layers of technology, and the more intensive is concentration, the more privileged they are in this respect. Hence a considerable amount of the fruits of higher productivity in those new technological layers, and, consequently, of the accumulation potential which this represents, ends up in their hands. And although they do not accumulate as much as they could, at all events they accumulate more than the other owners of means of production lower down the scale of tenure. Thus the propagation of technique and the socio-economic structure tend to favour the strong rather than the weak.

The lower the position of the owners of means of production in the scale of tenure, the less is their capacity to introduce the techniques of the centres. And thus as the capital at their disposal is relatively scanty, so too is their participation in the surplus, since that smaller capital makes it difficult to adopt higher layers of tech-

nology of increasing productivity. Furthermore, the lower down they are in the scale, as was have already pointed out, the more difficult it becomes to obtain access to bank credit and financing, as well as to the sources of technology.

All this explains why, as a general rule, the lower the position of the entrepreneur in the scale of ownership, the lower will productivity be.

Dynamic entrepreneurs, however, surmount these difficulties; and when they do so, and make technical progress, the object in view is frequently not to produce the same goods, but to participate in the process of diversification in line with demand and with the changes in it brought about by distribution privileges.

From the trend towards concentration far-reaching consequences stem, and one of these relates to the management of enterprises. In small and medium-sized enterprises, management is closely linked to the ownership of the means of production, and since as a rule intermediate and lower layers of technology are involved, the surplus too is small or medium-sized. It might therefore be said that the lower the position of entrepreneurs in the scale of ownership, the bigger is the proportion of their income that derives from their personal work.

In contrast, the higher up we look in the scale of ownership and also in the scale of productivity of the technological layers, the more the surplus increases, and thus a decrease takes place in the proportion of income corresponding to the remuneration of entrepreneurs. This effect is accompanied by another which is also of outstanding significance; for with the introduction of new layers of technology and the increase in concentration, greater importance attaches to the function of the executive and technical personnel who collaborate with and are appointed by the owners. Thus the periphery is developing, although to a much less marked extent, the same tendency as exists in the centres to

dissociate management from ownership of the means of production. The work of management is increasingly shouldered by the executive and technical staff, but the owners continue to appropriate the surplus. Their role is therefore reduced to their election and to the performance of certain functions which, although they do not necessarily redound to the greater efficiency of large enterprises, strengthen their power. Important shareholders, or their representatives, serve on various boards of directors, especially in the case of groups of companies whose formation is facilitated by the concentration of capital and easy access to financing from other sources; and also when the aim is to co-ordinate the development of several enterprises, often with restrictions on competition.

It is really a matter of an internal constellation of interests whose influence on the political parties and State authorities is thus considerable, since, *inter alia*, it facilitates obtaining modifications of customs duties, subsidies or other privileges which help to swell the surplus.

In this constellation of interests the transnational corporations become articulated. They are increasingly active agents of the introduction of new layers of technology and therefore of the creation of surpluses. They generally make a marked contribution to the expansion of production, but after a certain time they also turn into active agents of the siphoning-off of income abroad.

4. Social power

In peripheral capitalism two components go to the making of social power: training opportunities on the one hand; and the possibility of using them on the other. Both components are considerably influenced by the social structure.

Some CEPAL studies have helped to highlight the fact that opportunities for education and training depend largely

upon the political power of the upper and middle strata, although in very different degrees, whence great disparities derive. Thus, to cite extreme cases, there is generally a notable contrast between the resources earmarked by the State for the education of the upper and middle strata and those allocated to that of the lower strata, in some countries that have not yet succeeded even in eradicating illiteracy.

Obviously, too, access to the opportunities in question declines with the descent in the income scale. For instance, in cases where primary education has been extended to the lower strata, their family incomes are too tiny for them to take due advantage of it. And this is of course more marked in respect of secondary education; not to speak of university education, where the participation of the lower strata is minimal, to refer once again to extreme cases.

We are simplifying a serious problem in which other elements of a different kind are usually present. But enough has been said to draw attention to the privilege implicit in social power, which is of so much importance in the distribution of the income of the labour force.

The higher and more complex are the skills required, the greater is the influence of structural privilege on training in such skills, irrespective, of course, of individual differences, with which we will deal elsewhere. Moreover, competition between entrepreneurs to recruit possessors of such qualifications in the market induces them to give these skilled personnel a larger share in the global surplus than they would obtain if the latter did not tend to increase continuously in the course of development, in contradiction to the assumptions of neo-classical theory. Market forces help those who have acquired skills to climb the ladder, but they do not help in acquiring them. Such is the influence of the socio-economic structure.

This observation relates, of course, to

the skills that become more and more indispensable with the propagation of technique in the various manifestations of development. But the influence of social power affects not only them but also what we have called conventional skills. These are mainly the qualifications required for general State services, and for a whole extensive range of professional activities which are chosen not only for reasons of income, but in the light of traditional considerations of social status. Accordingly, in peripheral development there is a marked tendency to overdo training in these conventional skills, which in itself represents an additional factor of waste of capital.

This frustration of social power leads to the use of political power to secure the spurious absorption of redundant manpower with conventional qualifications in general State services and in public enterprises. To this last point we will revert later.

5. Trade-union power

It will be recalled that with the penetration of technique and the accompanying structural changes, the middle strata grow progressively larger. Only a fraction of them, however, has enough social power to acquire the skills which the new technique demands. The majority do not command these skills, or possess them only in an inferior and rudimentary degree, because they have insufficient social power or none at all. Consequently, their chance to share in the fruits of higher productivity through the spontaneous action of market forces grows less and less the lower down the scale of skills we look, and the supply of labour increases, exposed to the regressive competition which has already been explained elsewhere.

This is one of the most serious distribution problems, since under the rule of

market laws this mass of workers has relatively little redistributive power, and only in the course of time might gain a measure of strength as structural disparities were gradually reduced.

Clearly, then, distribution disparities are inherent in the development of the system. Accordingly, other kinds of power assert themselves, which come to the fore with the advance of democracy, as the middle strata are enlarged by industrialization and the expansion of other labour-absorbing activities.

If the capacity to share in the fruits of higher productivity were inherent in the play of market forces, as is assumed by conventional theories, trade-union power would have no reason to develop. But as this is not the case, the propagation of technique and the consequent changes in the social structure lead to the emergence of this kind of power together with political power, with the aim of counteracting the effects on distribution produced by the economic power of the owners of the means of production concentrated in the upper strata and by the social power of the advantaged labour force.

In reality, all this goes to make up one single system: the system of power relations. To denounce the trade-union power of the masses as anathema because it implies violation of economic laws is a serious *non sequitur*, since the economic and social power which it is opposing is not the result of those economic laws but of the socio-economic structure.

If, with the passage of time, this confrontation of powers culminates in conflictive situations and in a crisis of the system, this is due to the system itself, inasmuch, as has already been observed, the evolution of power relations is determined by no regulatory principle based on considerations of equity.

This lack of an equitable regulatory principle is apparent not only in power

relations in general but in trade-union power itself, which is far from being homogeneous. It usually carries more weight at the strategic points of the system and in those big enterprises where the surplus is high. In such cases, regressive competition has been largely eliminated, whereas this is not so in other activities in which a large proportion of unskilled or only slightly skilled labour is required, and in which regressive competition is strong, precisely because such manpower is so plentiful. In cases like this the State is invoked to support trade-union claims.

6. *The State and the composition of political power*

The State, being the political organ of the system, and therefore subject to changes in the composition of political power, is of considerable importance in the distribution of the fruits of higher productivity through the services it provides, the corresponding employment and the levying of tax revenue to cover the cost of such services. From the standpoint of distribution, the State is an expression of the existing power relations.

It has already been noted that the incidence of power relations is also heavy in the sphere of the market, where the relations deriving from the social structure and its changes influence distribution, and this in turn affects the diversification of demand and employment, which, again in its turn, operates upon the aforesaid changes. The situation would therefore seem to be similar, but there are very significant differences.

Whereas in the market sphere demand for goods and services is given expression through the expenditure of personal income, whatsoever pattern income distribution may have followed, in the sphere of the State the linkage between income and services is different. Save in exceptional

cases, the services provided by the State are financed with tax revenue which is drawn not necessarily from the income of those benefiting by the services but from that of other social groups. Thus, some groups may enjoy a sizable share of services for which other groups have paid.

Both cases reflect the composition of political power and the modifications it undergoes as the result of structural changes. In the course of these the dominant power of the upper strata finds itself opposed by that of the middle strata, as the democratization process advances, and finally by that of the lower strata, which the process in question is slow to reach. Thus a distinction might be drawn between different combinations of power, or if it is preferred, different phases, although one must beware of the risk of lapsing into an over-schematic presentation of the democratization process.

The first phase is that of outward-directed development, prior to industrialization. Political power is then essentially in the hands of the upper strata—landowners, financiers and big businessmen—and is shared by those who enjoy social power in the conventional forms prevailing at the time. External demand appreciably influences the generation of the primary production surplus, and the part left by foreign enterprises in the host country is distributed at the dictates of the market forces, whose interplay is undisturbed by the intermediate strata consisting mainly of the traditional middle class. The lower strata represent a very high proportion of the labour force which is widely scattered and has no power at all in the rural areas.

In a second phase, industrialization and, in general, the propagation of technique outside export activities are incipient; and to the primary production surplus is gradually added that generated by the new activities. Thus new elements are incorporated into the upper strata,

whose political power remains considerable in face of the weakness of the middle strata, which are beginning to expand as a result of the penetration of technique. Distribution is still governed entirely by market laws, owing to that same weakness and to the use of the State's potential instruments of repression, always ready for application in case of any troublesome redistributive effort.

In a third phase, the enlargement of the middle strata and the urban concentration which industrialization and, in general, the propagation of technique involve—through their direct and indirect effects—pave the way for the democratization movement. The upper strata, however, manage to mitigate, if not to nip in the bud, the incipient trade-union and political power that democratization is bringing to the disadvantaged strata. To that end they resort to different procedures: the manipulation and mobilization of masses or clienteles under direction from the top of the system; the co-opting of political and trade-union leaders, and their incorporation in the system with some participation in its advantages. In any case, democratization is largely formal, rather than substantive, and accordingly trade-union and political power develops within narrow limits.

The fourth phase represents the natural corollary of the third. It is characterized by the emergence, in the middle strata, of a clear awareness of their interests, thanks to their progressive expansion, to education and to the growing influence of the mass communication media. And through the exercise of trade-union and political power their former relationship of subordination to the power of the upper strata begins to melt away, so that their leaders acquire a capacity for bargaining and compromise, both as regards income redistribution and employment, and in respect of aspirations outside the economic field.

In the fourth phase the trade-union and political movement gains greater momentum. New leaders emerge whose activities are more and more directed towards exacerbating the distribution struggle, rather than easing its pressure. And the claims for redistribution which subsequently begin to be voiced by the lower strata as well drive the system to a critical limit beyond which its stability is seriously jeopardized.

Incidentally, in all this too a part is played by propagation and irradiation from the centres, whose democratic ideas and institutions acquire telling significance in the periphery in the course of the aforesaid structural changes. Thanks to this, the trade-union and political power of the middle strata gives increasing impetus to the tendency to extend the advantages of development beyond the restricted ambit of the privileged-consumer society.

In the successive phases just described, changes take place both in the composition of State services and in the manner of covering their cost.

In the first phase, in addition to providing the general services that to a greater or lesser extent are of interest to the whole community, the State, in channelling public expenditure, responds primarily to the requirements of the upper strata, as it does in its investment in infrastructure.

But as the subsequent phases succeed one another, the political power of the middle strata obtains services to satisfy its own social consumption, which are superadded to other State expenditure or investment.

These social services, as well as the other State services, also reflect another kind of pressure exerted by the middle strata, which relates more to employment and earnings.

At all events, in this latter case as in the former, the middle strata are trying

to remedy in the sphere of the State the adverse effects of market laws.

Employment is obtainable in two ways. The first is linked to the growth of services to an extent incompatible with the considerations of economic efficiency that prevail in the market. Services are over-amplified in relation to the strict requirements of demand; they are really the product of their own dynamics, of aspirations to bureaucratic hypertrophy and to higher incomes. Nor, of course, do these services abstain from the premature propagation of diversification and consumptive capital techniques, such as takes place in the market sphere.

Clearly this means that more employment is created, not only for those who command the skills demanded by technique, but also for those who have acquired conventional qualifications.

This over-expansion of services is not incompatible with good management: but it often becomes so, owing to the spurious absorption of labour. In so far as the system, because of the insufficiency of capital accumulation, fails to fulfil its labour-absorbing role, the redundant or unemployed labour force, particularly in the middle strata, uses its political power to secure its spurious absorption in State services. The lower strata, as a general rule, have much less power to do so.

Public enterprises constitute a special case which is far too important to be left out of the present analysis. Apart from the ideological motives which in some cases promote their establishment, they have frequently become necessary as an alternative to a transnational corporation or as a means of counteracting the economic and political power of the upper strata. But at the same time, it is undeniable that even when this has not initially been a paramount objective, they have often represented the political road to participation in the surplus which is generated in

the enterprise, and which is used partly to raise earnings and facilitate the access of the senior staff to the consumer society. But often, too, their own surplus is dissipated in spurious absorption of labour, when this does not take place at the expense of the surplus pertaining to the rest of the economy.

These remarks, of course, are not meant to justify economic inefficiency on the part of public enterprises, but to enable their case to be viewed in a broad perspective, as one of the manifestations of a process of redistribution. There are some, it should be added, who regard the public enterprise as an instrument for changing the system; but while positive contributions have admittedly been made, it cannot entirely elude the play of power relations.

Apart from what has just been said of public enterprises, all these different ways of sharing in the fruits of higher productivity of which, as stated above, the middle strata in particular avail themselves by virtue of the political pressure they can exert, naturally have important effects on the growth of the surplus; for, in the last analysis, the tax revenue which defrays the cost of State services and investment represents a burden on it. We are not alluding only to those investments in infrastructure which help to increase the surplus, or to those which are genuinely necessary for the performance of the State's functions, but also to the conspicuous investment which responds to other all-too-well-known motivations.

We have just seen how political power, which was originally confined to the upper strata, is gradually shared, by the middle strata in particular, and may ultimately be extended to the lower strata. To whatever extent this happens, however, the political power of the upper strata will remain considerable. For, as already pointed

out, while the political process is thus spreading its effects, the concentration of economic power is intensified. Even if the impact of the said process slows down the growth rate of the global surplus, this latter continues to expand, and thanks to this the upper strata increasingly enjoy the advantages of the consumer society. They will have to make concessions to the pressure for redistribution from below, but their political power is more than sufficient to defend the institutional bases on which their growing economic power is built up.

7. Political power and the mass communication media

The ramifications of the political power of the upper strata are a matter of common knowledge. They include financial contributions to the political parties and to their dynamic figures; introduction of politically influential personages into the boards of directors of enterprises, or employment of their professional services, both privately and in affairs of State; and other forms of participation through political channels.

In addition, account must be taken of the close relations of the mass communication media with the privileged-consumer society. These merit separate consideration, especially in the case of the press.

The evolution of publishing techniques—an integral part of production technology—necessitates an increasingly large amount of capital, and this does much to intensify the concentration of capital, as is the case with other enterprises. There is really a symbiosis between the big newspaper enterprises and journalism proper. But the latter tends to be subordinated to the former. The days are long gone by in which journalism required a relatively small amount of capital accessible to those who wanted to disseminate

ideas and influence public opinion. That state of affairs was intimately bound up with the original concept of the freedom of the press in political liberalism; but the hard facts have undergone a fundamental change.

It is becoming increasingly evident that newspaper enterprises are closely linked to the evolution of the privileged-consumer society, and are largely dependent upon commercial advertising. The journalistic function is strictly obliged to meet publicity's demands. And however broad its field of criticism, there would be no room for an attack in depth on the consumer society, or on the systematic manipulation of what the neo-classical economists call the sovereignty of the consumer. Much less could it impugn the very foundations on which the system is based. What is more, the success of advertising depends upon the circulation of the newspaper; to boost circulation is an inviolable watchword. And although there are noteworthy cases of circumspection and a sense of social responsibility, there are others, by no means uncommon, in which for the sake of a wide circulation commercial considerations alone prevail.

One important factor of circulation is criticism of governments rather than of the system: an expression of the freedom of the press; a mighty conquest of liberty. But it is the liberty of the owners of the means of production of the enterprise.

This again bears witness to the interdependence between the penetration of technique and the social structure and its changes. Because of the demands of technique, a big newspaper enterprise shares power with the other large enterprises whose economic power is substantial. The former is, up to a point, a member of the system of the privileged-consumer society, however wide and varied the range of its political opinions. It is so inasmuch as the requirements of circulation lead it

to trumpet abroad the superlative merits of that society. And by doing this it joins with the factors that animate the distribution struggle, apart from those which in some instances stem from its own bias.

This bias is considerably influenced by the structural changes that take place and the resulting changes in power relations. Thus, as the political power of the middle strata expands, the press responds increasingly to their interests and aspirations. New organs of the press are added to those which maintain their firm ties with the upper strata.

A certain ambivalence then makes itself apparent, particularly when democratization starts to forge ahead. Its advance is encouraged by the press, which at the same time continues to offer its stimulus to the consumer society. This, as we know, tends to develop within a limited ambit, whereas the march of democracy, urged on by the press, carries downward the advantages it brings. This ambivalence helps to accentuate one of the deepest-seated contradictions of the system, namely, the increasing disparity between the course of economic development and the political process, an aspect to which we have already made repeated reference.

In alluding to ideologies I am not necessarily thinking of those which are definitely opposed to the system, although obviously there is little room for them in these newspaper enterprises. Nor do I refer, of course, to those cases in which enterprises are established for the propagation of such ideologies rather than for the sake of an economic interest which could not, of course, be sustained by an inherently limited commercial publicity. They have other sources on which to draw for funds. In any event, freedom of expression is the primary concern of those who share the ideologies of these organs of the press.

On every side, the individual freedom

of expression proclaimed as one of the basic principles of political liberalism is seen to be hampered in practice, even when the democratization movement is in full swing. It is not easily accessible, as are, in contrast, public services, which are open to all those who are able and wishful to use them.

It is a commonplace that radio and television are acquiring such increasing importance as to jeopardize, in some cases, the prosperity of newspaper enterprises. Like these, they too need a great deal of capital and are usually similarly dominated by the interests of commercial advertising. There is, however, a by no means negligible difference when access to these media is accorded to any who wish to make use of them. Even though this access is paid for, it still represents a positive approach to solving the problem of freedom of expression; for it perhaps signifies the beginning of a separation between the enterprise as such and the genuine medium of diffusion of ideas and ideologies.

To these observations on the freedom of the press I should like to add one concluding remark. As will be pointed out later, mobility does exist in peripheral capitalism, but those who 'get somewhere' join the privileged members of the system and in one way or another obstruct the arrival of others. There is a similarity between this process and what happens in the case of freedom of the press.

This freedom is still deeply meaningful, and its significance is never better understood than when it is restricted or suppressed by the State's power of repression, or when the State takes over the press.

Where democratic liberalism prevails, anyone who wants to establish a newspaper or periodical can do so. The drive of dynamic personalities has made itself felt here as in other human activities. But although this implies a strong element of

freedom of the press, it is far from constituting a satisfactory response to that original concept of which we spoke before.

Such dynamic personalities, endowed with great entrepreneurial capacity, surmount in one way or another the formidable obstacles represented by capital requirements. And those who are successful acquire great power, power which is given by the freedom of the press, freedom to serve their own ends. But this by no means signifies free access for others, or equality of opportunity for all those who have ideas to express or ideologies to defend.

Nor is this all. The capacity to form a great newspaper enterprise, the capacity to guide its economic management, does not necessarily coincide with journalistic ability proper. And in the last analysis, entrepreneurial interests, so closely linked as they are to the consumer society, tend to take precedence of the role that political liberalism used to assign to the journalistic function. And sometimes a great contradiction arises between the enterprise as such and the convictions that may be urged, a contradiction which could hardly be understood without thinking in terms of the limited ambit of development privileges.

8. Individual differences and social mobility

We have explained the considerable influence of power relations on the distribution of the fruits of higher productivity. But this does not mean denying the existence of individual differences; in that case, to escape from neo-classical theories we should have tumbled into the opposite extreme. A very important form of social mobility does indeed occur, enabling certain individuals to triumph over the power relations resulting from the social structure, whatever their original place in the system. Thanks to their

capacity and dynamism, their ability to turn their experience to good account, they outstrip their fellows and increase their income, climbing to higher—sometimes much higher—strata than others who set out from the same starting-point. But when this happens they end by joining in the privileges of the system, and contribute to the exclusive and conflictive effects by which it is characterized, despite their positive contribution to development.

These differences primarily affect the surplus itself. If we have underlined its structural character, we must not forget its dynamic significance, since the growth of the surplus is determined by the increase in productivity which is due to the superimposition of new layers of technology and the improvement of techniques in the layers immediately below. And it is here precisely that the above-mentioned differences in capacity, drive and experience make themselves felt. Those who are outstanding in these qualities in the entrepreneurial sphere forge ahead and move upward more rapidly than others; they are the dynamic elements of the system, and their contribution is usually of great importance within the limited ambit of development.

Conventional theory is to some extent right in considering distributive advantages justifiable for the entrepreneurs who have contributed most to the improvement of productivity under a system of free competition; but privilege does not consist in profits themselves, but in the fact that however unrestricted competition may have been, a part of the fruits of higher productivity, which are considerable in peripheral capitalism, is retained on top of what was retained before, that is, it goes to increase the global surplus. The surplus is in the last analysis a structural privilege.

Rightly considered, it is in the persistence of this privilege that the fundamental

defect of imitative capitalism lies, for on it the consumer society rests at the expense of accumulation. I do not deny that social mobility allows the more dynamic individuals to increase their holdings of the means of production, but as a general rule, those who make good in this way, with the undoubted merit of overcoming opposition, end by joining the consumer society, as was noted above. And if they do not, those who have inherited the means of production in question generally do, even if they have not the same dynamic qualities.

In short, by wasting accumulation potential in this way they are hampering the social mobility of others, who, if they had the means to do so, might prove more efficient. More intensive use of this potential in introducing changes in the system would give greater opportunities of mobility to a larger number of individuals who might distinguish themselves by their capacity and dynamism. To pursue this subject further, however, would be to trespass too far on the ground that will be covered in a subsequent study on the Theory of Change.

We have already said elsewhere that social power enables its possessors to acquire the skills necessitated by the propagation of techniques. Here too there is an element of social privilege; but there are also individual figures with dynamic qualities who rise from below—sometimes from the very bottom—and by their tenacious efforts succeed in learning those skills and improving them through experience. Then again there are those who have social power and show great dynamic abilities which enable them to distinguish themselves and outstrip others risen from the same strata. But when they reach higher levels much the same thing happens to them as to those who shine in the entrepreneurial field, for as they climb they improve their

capacity to participate in the fruits of technical progress and gradually secure a share in the privileges of the system, including greater social power.

At all events, those individuals who, by virtue of their dynamic ability or of their social power, or thanks to a combination of both, possess the skills called for by the propagation of technique, find themselves in a more favourable position than others to share in the surplus to whose enlargement they contribute to a greater or lesser extent. The bigger the surplus, the more willing are enterprises to raise wages and salaries when supply lags behind demand for this skilled labour force. Exactly the opposite happens at the other extreme of the social structure.

A fundamental distinction must therefore be drawn between structural income distribution and individual differences in income. The structural distribution results from the play of power relations which are constantly altering with the changes in the social structure, and in their turn influence those changes. Individual differences correspond to varying degrees of ability and dynamism.

Here I should like to slip in a pertinent comment. Since the weak capacity of the labour force to participate in the productivity increment constitutes the structural origin of the surplus, those who are at the opposite extreme and in a better position to obtain their share thus benefit by the structural disparity, a situation which is reflected in the deterioration of income relations between the two groups.

This deterioration affects not only the lower strata but also that proportion of the middle strata whose ability to obtain higher pay lessens when the labour-absorbing role of the system loses strength, whereas the sharing capacity of the above-mentioned relatively small fraction of the labour force grows greater as the rate of productivity rises.

In other words, the improvement of the earnings of the labour force that possesses the skills increasingly demanded by technique largely depends upon the incapacity of the disadvantaged labour force to push up its wages correlatively with the increase in productivity. Such is the nature of the deterioration in income relations which is liable to occur in the spontaneous play of market forces.

V

Structural disparities in centre-periphery relations and the hegemony of the centres

1. *The centripetal dynamics of capitalism*

There could hardly be anything less realistic than that inveterate belief in the indefinite expansion of capitalism according to which it was merely a matter of time until this expansionist movement would spread progressively all over the world.

Let time do its work. The centre-periphery set-up did not fit into such a concept at all.

The dynamics of capitalism is quite a different thing. Capitalism, however thriving, has always tended to keep development to the centres themselves; and when it penetrated into the periphery in the days of outward-directed development

it did so in order to obtain supplies of primary commodities. The centres placed investment there with that end in view, generating what were sometimes very large surpluses. But these surpluses, in so far as they were not needed for the continued expansion of production for export, were siphoned off by the centres in response to incessant innovations. And the part which in the play of power relations the centres left for the periphery was also largely channelled back towards the centres themselves through imports purchased with the aim of imitating their patterns of consumption.

This explains why during the period of outward-directed growth capitalism was not favourable to integrated development of the periphery, over and above primary production; the peripheral countries were excluded from the spontaneous industrialization process. Not with malice aforethought, but by the very dynamics of the system—an essentially centripetal dynamics.

Thus an increasing structural disparity between centres and periphery supervened, and the economic and technological superiority of the former steadily increased. Accordingly, when adverse international events compelled the periphery to embark upon a deliberate industrialization process, it came up against wide disparities between its own productivity and that of the centres, and had to resort to protection in order to undertake import substitution. During the initial phases it relied entirely on its own efforts; but in the course of time substitution has attracted the transnational corporations. They invest to exploit their innovations, especially those that may be termed 'second-line', i.e., not the very latest. But they do not invest indefinitely, since the time comes when the surplus they generate is likewise transferred to the centres: a kind of siphoning-off which combines with the tendency of peripheral demand to shift

towards the centres in quest of increasingly diversified goods, in so far as these cannot be obtained through import substitution. The centripetal dynamics of capitalism reasserts itself after a spell of fleeting illusions.

One of these illusions has consisted in cherishing the hope that the transnationals would play a decisive role in the expansion of exports of manufactures to the centres, thus incorporating the periphery into the voluminous flow of trade in industrial products which has developed in these latter. But hitherto this has occurred only on a very small scale, because of the very dynamics of the system and its innovations.

The truth is that the portentous appearance of the transnationals on the scene contributes notably to the internationalization of patterns of consumption, but not so much to the internationalization of production, which is stimulated in the centres by technological progress. The transnationals forge increasingly close links with the consumer society of the periphery and do a very great deal to exalt it. But they do not counteract its exclusive tendency, because in the last analysis this is due, of course, to the waste of capital accumulation potential in imitation of the consumption of the centres, and to their centripetal dynamics.

Such is the myth of the indefinite expansion of capitalism, which has been fading out with the passage of time, as has that other illusion of peripheral development in the image and likeness of the centres.

The centripetal dynamics of capitalism exerts a profound influence on the development of the periphery, as has already been explained, and on its relations with the centres, with which we will now go on to deal.

Since the capitalism of the centres does not promote the integrated development of the periphery, this takes place

with a lengthy time-lag: a time-lag which entails a number of very important consequences that have come to light in our centre-periphery system, namely, the great structural disparities, the fragmentation of the periphery, its external vulnerability, the deterioration of the terms of trade and the concentration in the centres of economic and technological power. All this goes to prevent reproduction of the capitalism of the centres.

These various points, which are, of course, closely interrelated, will now be considered in turn.

2. The great structural disparities

The time-lag in the development of the periphery should be examined in the light of the past. Initially the periphery played a passive role in what we have called the days of outward-directed growth. At that time it really constituted a sort of appendix to the centres, whose function was to supply them with the primary commodities they needed, at a low cost. Moreover, the propagation of the technique of the centres was chiefly confined to serving this purpose. And peripheral development depended upon the degree of intensity with which this passive function was fulfilled, and which in some cases was very marked and created favourable conditions for subsequent industrialization. But this latter process was not the consequence of the spontaneous development of capitalism.

Owing to the very dynamics of the system, from the outset of the industrial revolution the fruits of the higher productivity achieved through technical progress were not spread throughout the world, but were retained in the centres themselves. There, accordingly, demand steadily increased, and there too, profiting by this process, innovations and industrial

diversification developed. Demand and innovations were spurs to one another.

Despite a few budding industrialization efforts in some of the peripheral countries during the phase of outward-directed growth, the periphery performed the specific role incumbent upon it in the outdated schema of the international division of labour, and was broken up into a number of compartments converging separately upon the centres, with very little reciprocal trade.

The significance of all this should give food for thought. While in the centres industrialization progressively changed the social structure and disseminated the fruits of technical progress downwards, the social structure of the periphery lagged farther and farther behind. It is true that the upper strata shared with the centres, although in differing degrees, the fruits of technical progress chiefly in respect of primary production, but the masses benefited only slightly or not at all.

This articulation between centres and periphery during the phase of outward-directed development split apart in the great crises of the centres (the First World War, the Great Depression and the Second World War). Until then, demand in the periphery, especially that of its upper strata, had been satisfied with imported goods. The crises in question made it exceedingly difficult for this to go on. Industrialization thus became a necessity: undertaken at first in order to produce at home what could not be imported, and later, carried along by its own momentum; and the advent of this process threw into sharp relief the technical and economic inferiority of the periphery from the standpoint of competing with the centres.

3. Peripheral industrialization and the transnational corporations

Industrialization was based primarily on

import substitution. Furthermore, it was asymmetrical. And in the light of experience it is clear that a symmetrical process would have been preferable, combining protectionist duties with various kinds of incentives to exports. But in face of the crises in the centres, the idea of a great export drive would have been a pipe dream.

In those early days of industrialization, active import substitution proved enough to counteract the inherent proneness of peripheral development to an external bottleneck. It should be recalled that this tendency is due to the structural disparities which the time-lag in development brings about in centre-periphery relations.

Owing to these disparities, demand for industrial goods produced by the centres, under the continual stimulus of diversification, expands rapidly in the periphery; whereas in the centres—save in exceptional cases—demand for primary commodities from the periphery grows relatively slowly, in addition to which some of these commodities are superseded by synthetic substitutes as a result of technical innovations.

To begin with, the centres were opposed to industrialization of the periphery, but later they found it fertile ground for the expansion of the transnational corporations. Attracted by protection, the transnationals have played an increasingly important part in the import substitution process, either for the direct satisfaction of the consumer society's requirements, or in order to facilitate other imports, especially those incorporating the constant innovations of the centres.

However, it is common knowledge that import substitution has its limits and becomes more difficult and complex when these are overstepped. Export promotion then becomes an indispensable requisite in order to offset the tendency towards an external bottleneck.

A good many people believed that the penetration of the transnational corporations into the periphery would make a notable contribution to the export of manufactures to the centres. The transnationals would be powerful instruments which, thanks to the internationalization of production, would enable us to participate in the copious flow of industrial trade together with the centres. But in practice things have not worked out like that. The transnationals have vigorously promoted the internationalization of consumption in the periphery, rather than the internationalization of production, inasmuch as they have not helped to establish new ways of taking part in the international division of labour. The periphery therefore remains largely excluded from the trade flows of the centres, as formerly from the industrialization process. This is the consequence of the structural disparity in centre-periphery relations.

What is more, until a few years ago the transnational corporations betrayed reluctance to export manufactures. Since then, however, they have reacted to the incentive of subsidies with impressive results; but relatively very little of this trade has reached the centres.

It may well be asked why, in this export effort, the transnationals have placed emphasis on exports to other peripheral countries rather than to the centres. As has already been pointed out, the dynamics of the centres is closely linked to the innovations that make for diversification; and it would therefore seem that the transnationals are not interested in undertaking them in the periphery, at any rate for the present. On the other hand, it does suit them to exploit there those newest products of yesterday's industry, or 'second-line' goods, which in the centres are being ousted by the still newer and more and more technically advanced products in which today's and tomorrow's inno-

vations take shape. They exploit in the peripheral countries innovations which in the centres are no longer such. The lot of the periphery is always to lag behind.

But why should not the transnational corporations use the periphery as a base from which to launch at least a part of the vanguard innovations? I am inclined to think that the lower-wages argument carries little weight, except in special instances, for in the case of those advanced goods the essential thing, apart from the expanding market of the centres themselves, is the scientific and technological infrastructure and the training of human resources to meet increasingly exigent requirements at all technical levels. These factors represent obstacles which, in combination with the narrow social base and the fragmentation of the peripheral economies, are hardly surmountable by means of export subsidies, however liberal these may be.

Again, the centres put up opposition in several ways to the admittance of those manufactures in which the periphery, by its own efforts, has achieved or could acquire competitive capacity. These are generally less advanced and less technically complex goods, for which the centres' demand tends to grow much more slowly than for the frontline products.

The transnationals, of course, are not interested in producing such goods, which do come within the reach of the domestic enterprises of the periphery. But they are not yet covered by the liberalization policy which has done so much for the expansion of trade in advanced goods in the centres. What is more, to the existing restrictions other new ones are often added which hamper peripheral exports to a still greater extent.

It is therefore understandable that enterprises producing the same sort of goods in the centres —goods for which demand grows relatively slowly— resort

to their political power and to that of the trade unions to keep imports out. If this has happened in boom periods when some centres have had to bring in foreign workers in order to expand production, all the stronger will be their opposition in less favourable circumstances such as those prevailing at present.

Notwithstanding all this, the transnational corporations, persistently encouraged by the centres, have been penetrating more and more deeply into the periphery, to the manifest detriment of the autonomy of peripheral development and of its national significance. There are some who opine that this must be accepted, as a means of removing the external obstacles to Latin American development. That objective has not been attained, as already shown; but dependence has increased.

We said at the beginning of this chapter that the myth of the spontaneous propagation of the capitalist dynamics of the centres in peripheral development has been exploded, like that of the social efficiency of peripheral development. Both were myths that arose out of an inveterate belief in the role of economic incentives and of market laws. That such a role exists, and is generally positive, there can be no doubt. But the incentives operate within certain structures and power relations which, as propagation and irradiation from the centres into the periphery take effect, involve deepseated contradictions, both in centre-periphery relations and in internal development.

Perhaps a few years ago it was impossible to imagine such contradictions in centre-periphery relations; but not to recognize them now would be veritably inexcusable. Yet this is what is happening. The centres remain entrenched in a position that is completely negative as regards the requirements of a new international economic order —a body of ideas that in

reality are not new, since they have been fruitlessly canvassed for more than two decades. And the periphery, as a general rule, persists in expecting of such a new order what can only be achieved after a radical and tenacious effort to bring about change. The new order must not be a means of continuing to boost the privileged-consumer society.

4. *The fragmentation of the periphery*

If a dynamic approach to these problems is adopted, it would seem unlikely, even were it possible to secure the application of a liberalization policy in the centres, that this would constitute the final solution of the peripheral bottleneck problem. This problem will acquire formidable dimensions as the peripheral industrialization process advances and is rapidly extended to countries where it is still incipient. Nor is it easily conceivable that the centres, in face of the periphery's potential imbalance, will increase their coefficient of imports from the periphery much beyond certain limits.

At all events, the periphery has not yet made a vigorous and sustained effort to exploit the considerable potentialities of reciprocal trade. It has not been capable of breaking down the outdated trade system under which each peripheral country converged separately upon the centres. It is true that the latter, and in particular the chief dynamic centre of capitalism, did not take a sympathetic view of certain efforts on the part of peripheral countries in the early days; but later they supported these attempts, when they realized that by doing so they could open up a promising field for the expansion of the transnationals. They have urged, however, that this expansion should take place entirely without intervention on the part of the governments, without any effort at rational distribution of the production of capital goods and intermediate goods, an end

which would not be attained as a mere result of tariff reductions.

All the same, thanks to such tariff reductions and to export subsidies, the transnationals have discharged a very important role in the peripheral countries' reciprocal export trade in manufactures.

But the governments have devoted little care to ensuring reciprocity. The more industrially advanced countries of Latin America are exporting larger and larger quantities to less developed countries, although without concerting measures that would enable the latter to develop their own industrial exports. Consequently, the less developed countries have transferred some of their import trade from the centres to the more advanced peripheral countries, thereby relieving the latter's trade deficit. However, this would not seem the most rational way of resolving the bottleneck problem from the standpoint of the periphery as a whole.

5. *The vulnerability of the periphery*

The development of capitalism proceeds in cyclical form. And the cycle is reflected in the periphery more intensively than in the centres, owing to the dominant role still played by primary exports, the prices of which fluctuate more sharply than those of final goods.

As a result of the cyclical fluctuations, in boom periods the peripheral countries are inclined to lose sight of the latent trend towards external bottlenecks; whereas in the downswings this trend reasserts itself in a form that is generally more difficult to counteract by the countries' own autonomous decision.

Such things are the consequence of the structural lag that we have already attempted to explain. If the periphery had played the same active part in industrial trade as do the centres, the proportion of total exports represented

by its primary exports would have steadily declined. And thus the cyclical movement of total exports would have been less sweeping; but this is not how matters have turned out.

The foregoing situation has another major consequence. As a general rule, the peripheral countries have overdone the import substitution process and have frequently extended it to final goods, especially in less technically complex lines of production. In this way they have introduced an element of great rigidity into imports, the effect of which is felt above all during the cyclical downturns. Through substitution, the proportion of total imports represented by final goods has considerably decreased. And imports are made up chiefly of raw materials, intermediate products and capital goods, i.e., items whose compression would have serious effects on economic activity; or again of products, such as foodstuffs and other essential consumer goods, in respect of which substitution policy has seldom been inspired by far-reaching foresight.

With this loss of flexibility, more and more difficulties attend upon an expansionist policy, however cautious, aimed at mitigating the adverse effects of a decline in exports on internal development. The compressible margin of imports has largely, if not entirely, disappeared. And if the periphery persists in following such an expansionist policy, there is nothing it can do but resort to international loans. The main object of such operations is no longer to increase capital accumulation, but to cover, in the last analysis, the requirements of consumption and debt-servicing itself. Consequently, the growth of the external debt is not always accompanied by a correlative increase in production capacity. It is needless to underline the gravity of these facts in themselves, when they reach a certain pitch, especially if a little thought is given to their significance in dependence relations.

When starting to discuss this point we said that external vulnerability, intensified in the way that that has just been shown, is a consequence of the structural time-lag and of the centripetal dynamics of capitalist development. A time-lag which, as has already been explained, is also reflected in the fragmentation of the periphery. This fragmentation has been among the factors that have made import substitution more difficult and costly in respect of intermediate and capital goods, which, in addition to their technical complexity, necessitate broader markets than those of individual countries. Perhaps this is the principal reason for overdoing final goods substitution, since it is easier and more expeditious. But, as pointed out elsewhere, the periphery has not yet been able to face up resolutely to the task of changing the old system of the peripheral countries' convergence upon the centres.

6. The terms of trade

This is the subject of one of CEPAL's original theses, and was among the considerations upon which the inescapable necessity of industrialization was grounded. Set forth in somewhat simplified fashion, the thesis aroused criticisms which sometimes made useful contributions to its refinement. I will go on to state its main propositions, already partly dealt with in an earlier chapter.

It relates first and foremost to the weakness that generally affects primary commodities, especially foodstuffs, in structural changes in demand and employment. Demand for such products tends to grow relatively slowly in comparison with demand for industrial goods, which becomes increasingly diversified as per capita income rises. Similar disparities arise in demand for simple services. All these phenomena are intensified by the great inequalities in income distribution.

Employment of course follows in the track of these changes in demand. As will be recalled, manpower moves from the labour-expelling to the labour-absorbing activities.

This switch-over takes a considerable time, and all the longer, of course, the greater is the waste of capital accumulation potential, apart from other factors.

The labour force in the strata concerned is engaged largely in the periphery's primary production, particularly agriculture. And when it shifts into labour-absorbent activities, regressive competition on the part of the manpower remaining in these strata prevents it from raising its income correlatively with the increase in productivity, as was explained at the appropriate point.

When, moreover, thanks to technical progress, productivity rises in the case of primary commodities, the fruits of this higher productivity are diverted away from agriculture. To prevent this from happening, it would be indispensable for the labour-absorbent activities to fulfil their role very vigorously indeed; but they do not.

To whom are the fruits of the higher productivity transferred, in greater or lesser degree? Mainly to middlemen in the production process or to the consumers of the final goods which emerge from that process; but if the natural resource in question is in short supply, this trend is counteracted, and land rent in agricultural or mining areas rises proportionally.

Where primary exports are concerned, the transfer is usually made to the centres, because of the relative deterioration in the prices of such commodities in comparison with those of the diversified goods which are imported. This is a matter of market laws. If in one way or another their play is counteracted, the trend towards deterioration is promptly interrupted. This is, in essence, the CEPAL thesis.

It is certainly not a question of something inherent in primary commodities, but of a trend which predominates throughout a long period of transition until the system reaches its maximum absorption capacity. And upon industrialization is incumbent a role of supreme importance in this connexion.

A long period of transition. So long that even the centres have had to adopt measures to counteract the trend towards deterioration, especially when the increase in productivity has been intense. We will refer to this when we deal, in another study, with neo-classical theories.

Let us now look at a further highly important aspect of this question, relating to the diversification mentioned above. It is worth while to recall the sequence of events: growing productivity and rising income, inequitable income distribution, progressive shift of demand towards goods that are being increasingly diversified. Now, the more intensive is this movement of demand, the more capable are the labour-absorbing activities of retaining the fruits of productivity in the form of a surplus; and the less the extent to which those fruits are retained in the labour-expelling activities.

We have seen that the explanation of this last phenomenon lies in the abundance of manpower in those layers of technology where productivity is very low, as well as in the inadequate performance of capital accumulation's absorbent role. We might assume the contrary, i.e., such intense fulfilment of the process of absorption that the differences in workers' earnings would be gradually smoothed out until incomes came to be the same for all occupations requiring the same technical skills, whether they were labour-absorbing or labour-expelling activities. As this happened, the tendency for the productivity increment in these latter to be transferred would be modified, with no decline in the

relative prices of the goods they produced; and the income relation between labour-expelling and labour-absorbing activities would progressively improve. But this is a highly unlikely hypothesis, in view of the insufficient absorption capacity of the system.

An increase in productivity is therefore not enough to ensure the improvement of income relations. It is also indispensable that the labour force should be able to obtain higher salaries and wages so that it can participate in the absorption of the productivity increment.

From the centres, again, comes the reiterated recommendation to raise productivity in agriculture. Of course this would have to be done by improving technique, especially as regards land yields; but such action is far from enough, for if the absorption capacity of the system does not increase, the productivity increment will tend to be transferred, either internally or externally, according to the product concerned. And as this process takes time, it is understandable that the labour force resorts to its trade-union and political power in order to share in the fruits of higher productivity. At all events, the basic solution depends essentially upon intense use of the accumulation potential. And this, as we know, is incompatible with the consumer society and its increasingly close linkages with the transnational corporations: a patent manifestation of the centripetal trend of capitalism to which we alluded at the beginning of the present chapter.

As long as the labour force employed in agriculture fails to improve its sharing capacity, the productivity increment will be transferred outside it or will push up land rent, according to the degree of liveliness of demand. When land tenure is concentrated in the upper strata, as is generally the case in the Latin American region of the periphery, the regressive

trend in income distribution will be strengthened.

Hence an argument stems of which the centres are wont to avail themselves in order to oppose commodity price stabilization agreements, even when these are not aimed at systematically improving the terms of trade; it is alleged that their adoption would represent artificial interference in market laws, to the greater benefit of the privileged sectors of the periphery. It has already been pointed out, and moreover is common knowledge, that fluctuations of external origin are seriously prejudicial to the regularity of development, to the disadvantage of all concerned. What is more, conjunctural deterioration of the terms of trade does much to stiffen the periphery's attitude of insistence on measures that will steadily improve those terms. It seems worth while to dwell for a moment on this point.

When a conjunctural improvement takes place in the terms of trade and income relations in export activities, the landowners' surplus rises and so also does the income of the skilled labour force. Its demand for diversified goods therefore increases and it acquires new habits of consumption. When the downswing supervenes, it becomes very difficult to squeeze the consumption thus expanded. Protests are then raised against distributive inequity at the international level, without a moment's regard for internal inequity.

To put it another way, the terms of trade relate to the goods formerly imported and not to the new goods that are technically more advanced; these are generally higher-priced and strictly speaking are different goods. It is, of course, quite explicable that any who purchase them after recovering the same income as before should consider that their situation has worsened. The terms of trade could have been kept stable throughout the cyclical fluctuations, but the income relation between centres and periphery would have deteriorated. And

so it would within the periphery itself, as between labour-expelling and labour-absorbing activities.

The centres object to these so-called artificial interferences with market laws, maintaining that they will benefit the great landowners whose land rent is very large. Although it is not so in all cases, since a number of medium-scale and even small producers participate in export activities, this argument undeniably has something to be said for it when the problem is viewed from the standpoint of the social equity of development.

Be that as it may, those who receive this large land rent form part of the upper strata on which the consumer society is based; and it is well known that their interests tie in very closely with those of the transnational corporations.

This is yet another proof of a certain inconsistency on the part of the centres. For fluctuations in prices, and to a far greater extent their deterioration, seriously jeopardize the orderly development of the consumer society.

7. The concentration of power and the hegemony of the centres

We remarked elsewhere that the centripetal trend of capitalism accounted for the time-lag in peripheral development. We have also explained the principal consequences that this involves, except for those concerning power relations, to which we will now devote some attention.

While the centres steadily increase their economic and political power, the periphery perpetually lags behind. And the growing power of the former is accompanied by very significant manifestations of economic and technological superiority, together with the emergence of ideas, ideologies and new cultural patterns which tend to spread to the periphery in those processes of propagation and irradiation to which we have

attached so much importance in peripheral development.

This, in short, is the historical phenomenon of the economic, political and strategic hegemony of the centres, especially of the leading dynamic centre, which has become a capitalist superpower.

Long before this, the United States constituted the hegemonic power of the American continent, always ready to prevent the intervention of other powers in what it used to —and still does— regard as its own sphere of influence. In those days, fundamental differences in economic and social systems did not enter into play at the international level. But now they carry a great deal of weight. And the socialist superpower finds in the way in which the other exercises its influence, as well as in the conflictive and exclusive character of peripheral capitalism, a very important front on which to undermine, by the propagation and irradiation of its own ideologies, the hegemony of the capitalist superpower.

The interests of the hegemonic centres are promoted and defended through many different forms of action and persuasion: trade concessions, financial resources, military aid, certain methods of exerting overt or covert influence on public opinion and governments, and, as an ultimate possibility, punitive measures which sometimes culminate in the use of force.

The centres, especially the capitalist superpower, apply these various forms of action and persuasion in such a way that the peripheral countries, in widely varying degrees, find themselves subject to decisions made in the central countries, or constrained either to adopt decisions which otherwise they would not take, or to refrain from adopting them even when they would have liked to do so. Such is the phenomenon of dependence, which must not be confused with other important elements in centre-periphery relations.

This is not the place to deal with political and strategic interests, however important they may be, but with economic interests.

We have already noted the leading role played by the transnational corporations in these economic interests. Clustered around them in the centres there is a constellation of diverse interests; and among these one common denominator of solidarity exists, which, although not always visible, becomes vividly apparent when from time to time friction occurs in centre-periphery relations.

Underlying these relations is always to be detected the weight carried by the transnationals in the centres within the sphere of the State. And thanks to this and to their economic and technological superiority, they also exercise considerable influence in the periphery, and acquire a great deal of internal political power, even when they do not openly participate in party politics: a political power which sometimes outrivals that of national enterprises and appreciably sways the decisions of peripheral governments.

The transnationals also exert a powerful influence on the press and other mass media, especially on account of their close linkage with the privileged-consumer society. This influence transcends the sphere of economic interest, and sometimes extends to the promotion or defence of certain political or strategic interests of the capitalist superpower, whether in the form of open support or through discreet unwillingness to countenance subversive criticism. All this, of course, with the collaboration of certain international news agencies that are highly skillful in their selection or presentation of information or in giving a subtle slant to their comments.

As regards the economic interests of the transnationals, their most important decisions are taken in the centres with an eye to their global interests, which may or

may not coincide with the interests of development. For example, from this last standpoint, in a specific peripheral country it might be economically expedient to promote certain branches of production or exports, although other countries might be better qualified from the angle of economic efficiency or viability.

There are cases in which decisions are not adopted by the transnational corporations but by governments in the centres which are guided by their own interests and take no account of the unfavourable impact of those decisions on peripheral interests. Examples that always come to mind are provisions that place a ban on exports to specific countries or on processing materials coming from countries to which the leading centre, whether the others follow suit or not, is applying punitive measures. Nor can those directives be forgotten which, prompted by considerations of external disequilibrium, have led to the untimely repatriation of profits obtained in the periphery.

Large countries possessing broad markets, or endowed with an abundance of natural resources that are in short supply in the world, are in a better position to confine this penetration of the transnational corporations to specific fields of activity and to negotiate the terms on which it is allowed. All the more so if their leaders have a lively awareness of present and future national interests, and are able to rid themselves of those doctrinaire notions which attribute to the transnational corporations a very different role from the one they really play in peripheral development.

Everyone knows what pains the governments of the centres take to encourage the expansion of the transnationals in the periphery, emphasizing their dynamic significance, both in the so-called modernization of the countries concerned, and in the internationalization of production.

This attitude is usually accompanied by a few trade concessions to peripheral countries, as well as by a flow of financial resources, through either bilateral or multilateral channels.

When granted mining or petroleum concessions, the transnational corporations, thanks to their economic and technological superiority, have been able to appropriate a substantial proportion of the surplus. Although with the passage of time the peripheral countries have strengthened their formerly feeble bargaining capacity, the image of the transnationals that was built up in the past still casts its shadow on public opinion, whether the question at issue is one of natural resources or of the penetration of the transnationals into industry and other domestic activities.

In industry, their acknowledged capacity to generate surpluses is often reinforced by protection or subsidies, although these are less justifiable than in the case of domestic enterprises because of the higher productivity of the transnationals.

Furthermore, the very fact of exploiting their innovations enables the transnational corporations to restrict competition and enlarge their surpluses. And the extension of their operations to many countries makes possible certain arrangements or practices which are very understandably considered questionable because of their potential adverse effects on development. This uneasiness is enhanced by the secrecy surrounding such operations and the suspicion it arouses, which is intensified by the impressive size of the transnationals.

As we were saying, the introduction of innovations facilitates restrictions on domestic competition. But furthermore, in foreign trade, there are usually tacit or explicit understandings between enterprises in respect of prices or operational margins, to the decided benefit of their surplus.

We have mentioned more than once that the transnationals exalt the consumer

society. But theirs is not the merit of establishing it. It could not exist without the great distributional disparities whose origin lies in the social structure of the periphery. The transnationals take advantage of them with acknowledged dexterity.

It would be a great mistake to suppose that the periphery invariably resigns itself to the idea that these and other problems are adamant facts which have to be lived with. Whether we call it nationalism or not, awareness of their own identity and of the autonomy of their decisions is certainly displayed by the peripheral countries, especially when democratization makes headway. But the possibilities of translating this awareness into terms of practical attitudes are a very different matter.

This is not the place for a systematic analysis, but merely for reference to a few significant cases, such as that of countries which attempt to attract the transnationals in some branches of their developing industry, while they reserve for public enterprise the exploitation of certain resources or basic activities. Positive results have also been obtained by the establishment of a commitment on the part of certain transnational corporations to export a specific quota of their output, in exchange for the opportunity to take advantage of a growing domestic market which holds out considerable promise.

Clearly, the fragmentation of the periphery is a serious obstacle to a policy of this kind, as well as to the effective role that the transnationals might play in the development of certain important lines of reciprocal trade.

8. *Underdevelopment and dependence*

We have given a definition of dependence relations in order to forestall not uncommon misunderstandings. For instance, underdevelopment, as it is sometimes

called, is attributed to dependence. This is to confuse dependence and periphery. The concept of the periphery covers at once the manifestations of dependence and the exclusive as well as the conflictive trends which characterize underdevelopment. As remarked elsewhere, if all the tokens of dependence were to disappear by magic, the exclusive and conflictive trends would still persist.

In contrast, if the dynamics of capitalism were what it is usually imagined to be and the transnationals invested and re-invested indefinitely in the periphery, the absorption capacity of the system would be strengthened and underdevelopment would be progressively eliminated. Whence this paradoxical conclusion would be reached: the higher the degree of dependence, the greater would be the social efficiency of the system!

But the system does not function like this. And the aim pursued by the transnationals is not to achieve social efficiency but to reap, sooner or later, the harvest of their investments.

Those who blame dependence for underdevelopment are forgetting a very important fact which we have repeatedly explained in the present article: the exclusive character of peripheral capitalism, and also its conflictive trends, are primarily due to the internal waste of capital accumulation potential, largely imputable to the consumer society and the great distributional disparities upon which it is based. Without these disparities, the transnationals would not find such fertile ground for their expansion in the periphery.

Let us not lay upon other shoulders, therefore, responsibilities that are the periphery's own. The responsibility of the centres is very great; so is that of the periphery. It is a shared responsibility. To think otherwise is not objective. But undoubtedly, as the ideological controversy of the two superpowers is reflected in the

periphery, to attribute underdevelopment to dependence is a persuasive political argument.

Dialectics certainly has inexhaustible resources to draw on. Since technology and patterns of consumption come from the centres, to these —we are told— peripheral underdevelopment is ultimately due. And why not go farther and pin the guilt on the scientists of the centres, to whose efforts we owe the stupendous development of the techniques of production and consumption? And also the technology that protects and prolongs human life!

Equally extravagant is another idea according to which the prosperity of the centres is due to the siphoning-off of income from the periphery. This process is of great importance for the peripheral countries. But to ascribe to it such an effect means overlooking the consequences of the enormous technological progress made in the centres, which, of course, is not exempt from the evils characteristic of its ambivalence.

The truth is that the scientific, technological and cultural legacy inherited by the periphery is immeasurable. The problem does not lie there but in the passiveness of the periphery, in the definitely imitative nature of its capitalism. It is not a question of forgoing this incessantly enlarged and renewed inheritance, but of turning it to account in a spirit of creative adaptation.

9. *Cultural dependence*

There is certainly room for adaptation of this kind in technology, as already noted. But the essential thing is to take the utmost advantage of its accumulation potential. This is frittered away in the consumer society, in the disproportionate growth of the State, in the siphoning-off of income by the centres. In our eagerness

to develop in the image and likeness of the centres, we have failed to establish authentic ways and means of our own whereby to influence the forces of development deliberately and with clearly-defined objectives in view.

It is true that propagation and irradiation from the centres are becoming more and more intense. And they do not occur in the economic field alone, but also in a wide range of cultural manifestations, thanks chiefly to the mass communication media. This is a very serious problem, which has been discussed by thinkers who possess an authority that I lack. Nevertheless, I will venture to make the following brief observations. The strength of a peripheral country's personality depends largely upon its ability to take advantage of the cultural heritage to which we referred and use its creative capacity to promote the formation of its own culture. Without for a moment denying that internal factors of great significance enter into this, it would be idle to disregard the influence of the mass communication media. They propagate and irradiate the intellectual and artistic manifestation of the centres not only on account of their intrinsic value, but also because of the technical superiority of the media themselves, because of the considerations of economic interest by which they are usually guided, and also because of their ideological intention. It is a very difficult (although not an impossible) task to rise superior to these propagation phenomena, especially in a fragmented periphery.

If we have always spoken of propagation and irradiation it is in order to draw attention to an important distinction. Propagation is something deliberate, in which the mass media play a powerful part, whereas irradiation is spontaneous. It often happens, however, that these two forms are inextricably combined.

10. *Ideological dependence*

This is the case with something that touches us very closely, namely, the ideas and ideologies of the centres. The spontaneous irradiation of what is thought and written there has been and still is very vigorous. But deliberate and systematic propagation is also carried out.

The intellectual irradiation of the neo-classical theories which form the basis of the contemporary version of economic liberalism — with which we will deal elsewhere — dates back to the mid-nineteenth century. Neoclassicism, apart from its intrinsic significance, represents an alternative to Marxism. The spontaneous irradiation of these two theories in the periphery has been and still is powerful. But highly intense too is their deliberate propagation as part of the ideological contest between the two great superpowers.

It is true that economic liberalism is a good deal adulterated in practice. Its principal manifestation in the periphery is usually the suppression of the trade-union and political power of the labour force in order to overcome a crisis of the system: a proceeding patently divorced from democratic liberalism.

It is not generally understood in the capitalist superpower that economic liberalism and dependence relations are incompatible with the march of democracy and the inalienable exercise of human rights. For the many who suffer the consequences of this incompatibility, the expressions of human solidarity that emanate especially from the main centre of capitalism when human rights are violated come as a great relief. And with a little imagination, with a little pious hope, it might be possible to see in them signs of a fundamental change of attitude towards the periphery, and, if the reader likes, towards the radical transformations

that it needs to undergo if thriving and equitably-balanced development is to be made compatible with a genuine democratization process. Preaching the cause of democracy is of supreme importance, but it is far from enough; just as international acts of exorcism do not suffice to stop the aforesaid violations of human rights, especially when repression makes it possible to restore, in some cases, the harmonious articulation of the transnationals with the consumer society.

Such is the option that economic liberalism offers as a means of weathering the crisis: the consolidation of social inequity. It is not surprising, therefore, that the opposite alternative proves alluring. Experience highlights, however, the anxious perplexity of those who expected that the concentration and management of the means of production in the hands of the State would bring with it democratization and all that democracy implies for personal freedom. But that of course calls for a very different conception of the political régime and of human rights.

Between these two diametrically-opposed alternatives, promoted by the ideological contest between the two superpowers, comes the irradiation of redistributive democracy. The political parties that incarnate this ideology in Western Europe are also expending effort upon propagation and on support for the parties which are striving to restore institutional normality in peripheral countries where the rule of force prevails, or to forestall the imposition of such a régime. This trend towards the internationalization of democracy might be of incalculable value, over and above its immediate significance. Nevertheless, what is fully justified in Western Europe does not entirely meet the demands of the peripheral situation. To shake off a régime of force and restore institutional normality so as to clear the way for re-

distributive democracy without making radical changes in the system would be once again to risk the advent of another crisis, in the possible course of a subsequent political cycle. What is required is to change the system with a view to much intenser capital accumulation than at present, or, in other words, so as to exploit the accumulation potential of the surplus to the full, and alter the composition of the capital accumulated. This must be the starting-point for a dynamic and rational distribution of income, although not to the exclusion of immediate measures to improve the position of the lower strata: the transformation of the system and the institutional transformation of the State.

A tenacious effort to convince outsiders is needed, but we shall have to begin by convincing ourselves. Convincing ourselves that it is possible to change the system in such a way as to reconcile equity, thriving development and the advance and consolidation of the democratic process. With all this I hope to deal in another article.

11. *A far-reaching outlook*

Meanwhile I should like to close this chapter with a final observation. In my long life first as a national and then as an international civil servant, I have seen the capitalist superpower—even when it had not yet attained that status—make tremendous mistakes in relation to the periphery and particularly to the Latin American region, which certainly cannot claim exemption from them. And I think that the biggest of these mistakes, that of the greatest significance for the future, perhaps for a not very distant future, is to play all its cards in favour of a system which is becoming more and more vulnerable from the social and political angles, and, above all, from the ethical standpoint: a system which is

increasingly exposed to subversion, repression and the betrayal of democracy.

It is easy to understand the strategic concern of the capitalist superpower to prevent the ideologies of the socialist superpower from influencing political movements in the periphery which, if they come to power, will naturally seek the latter's support, with all the diverse consequences that can be imagined. But I do not want to harp on the old strings of the cold war. Though deliberate propagation might be avoided in a conceivable separation of spheres of influence — a new manifestation of dependence —, the irradiation of ideologies will continue to flourish in face of the great defects of peripheral capitalism: irradiation of today's ideologies or perhaps of tomorrow's.

However efficacious countersubversion measures, internal repression and the external use of force may prove in given sets of circumstances, it is obvious that

they attack symptoms but not deep-lying causes. Hence the need for a far-reaching outlook, if in this nuclear age some value still attaches to certain political and strategical considerations of the capitalist superpower in this hemisphere: long-term considerations which contrast with the very narrow view of things reflected in the play of economic interests in centre-periphery relations. Thus in the attitude of the centres to the Latin American region of the periphery there is a flagrant contradiction which it has not yet been possible to resolve.

In centre-periphery relations a far-sighted outlook is required, such as, without necessarily impairing fundamental economic interests of the centres, will endeavour to find broad areas of agreement which, besides being compatible with the autonomy of peripheral development, will allow dependence to be gradually left behind and the way to be cleared for progressive forms of interdependence.

VI

The crisis of the system

1. *The dynamics of the system and the vulnerability of the surplus*

The vicissitudes to which the system is exposed are many and various. But when I speak of its crisis I am confining myself to the sort of situation in which the exacerbation of the distribution struggle, for want of a political consensus — very difficult to obtain, anyhow —, leads to the use of force to restore its dynamics.

The tendency of the system to move towards a crisis is an expression of the structural changes that take place in it

and the concomitant changes in power relations. When in the course of structural change the trade-union and political power of the middle strata develops over against the power of the upper strata, the distribution struggle waxes increasingly fierce until it culminates in the aforesaid critical denouement.

This is why we have so insistently emphasized the role played by the democratization process. While it is incipient, or is contained in one way or another, the trade-union and political power of the labour force is non-existent or very slight.

And the system, from the standpoint of distribution, functions without major upheavals.

It should not be understood, however, that the crisis originates exclusively in the endeavours of the labour force disadvantaged by market laws to secure a better share in the fruits of higher productivity, either by means of wage increases or by recourse to State machinery with a view to obtaining employment and improving its income. For it also resorts to its trade-union and political power to recoup itself for the adverse effect of other factors on the improvements already won. Of course, when the power in question is negligible, these other factors can operate with no significant resistance from the labour force. The system may suffer disturbances, but without reaching such a crisis as may fundamentally jeopardize its dynamics.

Its dynamics is endangered, however, when the redistribution struggle adversely affects capital accumulation and the consumer capacity of the upper and upper-middle strata. It is worth while to recall what has been explained elsewhere about the evolution of the surplus. There are structural phases during which the growth rate of the total surplus is higher than that of the product because of the weak redistribution capacity of the labour force. But as trade-union and political power develops and this weakness is remedied, whether the aim of the labour force is to recoup losses or to improve its share in the fruits of higher productivity, the growth rate of the surplus gradually diminishes until it is the same as that of the total product. Thus a limit is reached which cannot be overstepped, for if trade-union and political pressure continues the surplus will decrease in relation to the product.

The significance of this last point must be clearly understood. Before that limit is reached, the consumption of the

upper strata has also been growing faster than the product. Consequently, even at the limit there is still a great deal left that is, so to speak, redistributable. But the consumer society fights for its privilege and, sooner than accepting any such compression, which would also affect capital accumulation, will react by raising prices. And this triggers off the inflationary spiral, which, sooner or later, leads to the use of force.

The truth is that no system can develop its dynamics without an increase in capital accumulation. Only in view of the nature of peripheral capitalism, if it is to regain its endangered dynamics, the consumer society must also be re-established, and this is done at the expense of the participation achieved by the labour force.

We will now try to explain these aspects of the problem, beginning with the internal factors which build up the internal crisis, and then going on to deal with the external factors with which they are usually combined. We start with the former not only for methodological reasons, but also to show that their action alone suffices to unleash the crisis. The external factors, according to their direction and intensity, may either mitigate or accentuate the effects of the play of power relations.

2. Internal factors of participation

The internal factors make themselves felt in the sphere of the market and in that of the State, as the trade-union and political power of the middle strata develops. This power does not reach the lower strata until they are belatedly caught up in the democratization process.

In the sphere of the market, trade-union power struggles to push up salaries and wages and to defend the improvements already obtained and, therefore, the private consumption of the said middle

strata; this power, as we know, enables the labour force that is not favoured by market laws to counteract the regressive competition of those working in lower layers of technology. The consumption increment thus achieved, as long as it does not reach the critical limit, is not obtained at the expense of the consumption of the upper strata, but is superimposed upon it. In reality the disadvantaged strata use for consumption almost everything they gain in the struggle and do not contribute to reproductive capital accumulation. In so far as they do save, it will be mainly in the form of consumptive capital. The latter is not taken into account in our analysis, since it does not invalidate our argument.

Manifestations of trade-union power are also found among the labour force favoured by its social power, when, in addition to the effects of this latter, it increases its earnings by means of restrictions on entry into certain activities or on their exercise. Here too, the result is an increase in consumption, although among the upper strata of the labour force investment often takes the form of reproductive as well as of consumptive capital.

In the sphere of the State, the middle strata, thanks to their political power, evolve different ways of sharing in the fruits of higher productivity; for example, they seek to obtain services which are of special benefit to them, to extend the scope of these and other services, and to secure in all of them spurious absorption of manpower that they do not really need.

Let us now look at the significance of these three aspects which have just been mentioned.

The services that the middle strata seek to develop for their own benefit relate above all to their social consumption in respect of education, health, social security and housing. As in the case of the exercise of trade-union power, however, this im-

provement is additional to the consumption of State services by the upper income strata, thanks to their political power.

But there is also another very important factor. State activities are not subject to the same economic criteria as prevail in the sphere of the market. As already pointed out elsewhere, they obey a dynamics of their own which leads to hypertrophic growth, both through the influence of the technological progress in State activities, and through propensities to swell the ranks of the bureaucracy beyond what is justified by the needs of the community.

The dynamics of State services, in addition, fosters the spurious absorption of labour, and here too the political power of the middle strata makes its influence felt. This is a tendency which primarily reflects the system's lack of capacity for genuine absorption of the labour force increment, owing to the insufficiency of capital accumulation. But it is also furthered by those who possess conventional qualifications and who, for reasons of tradition or social prestige, use their political influence to gain a foothold in State services.

Thanks to the economic criteria to which we have referred, there is usually a higher degree of efficiency in the sphere of the market than in that of the State, especially when public enterprises are affected by political motivations. But it would be a mistake to make this comparison without adding a not unimportant rider. It is true that economic efficiency helps to increase the global surplus; but since a large proportion of this is wasted in the consumer society, it also does much to aggravate the social inefficiency of peripheral capitalism, with effects similar to those produced by the economic inefficiency of the State services.

We have mentioned State investments. There are some, such as those in infrastructure, which help to step up productivity,

whereas others involve waste of capital, especially investment in public monuments and of other conspicuous types; the resources diverted into these tend, in the last analysis, to reduce the surplus more and more as the power of participation of the labour force is strengthened.

Lastly, price increases occur which, although they are in origin nothing to do with the distribution struggle, help to exacerbate it; the most outstanding case in point, because of its dimensions and persistence, is that of land rent. It has already been explained elsewhere how the increase in demand for space, owing to the growth and concentration of the urban population, as well as the overall rise in productivity, tend to push up urban land rent. The rise in the cost of land services, so to speak, affects the surplus in two different ways. On the one hand, it increases the costs which the enterprises try to transfer to prices; on the other hand, the rents paid by the labour force are higher. In both instances the latter will strive to improve its earnings when it has the power to do so. The effects, of course, are unfavourable to the surplus.

Much the same thing happens when internal demand for agricultural commodities, if unaccompanied by increases in productivity or by the expansion of the area under cultivation, causes prices to rise.

There are other external factors whose incidence is similar, but the time has not yet come to discuss them.

3. *Power relations and the tax burden*

Power relations largely determine the nature of State services, except those of a general nature which are of interest to the entire community, although to an unequal extent. They influence these latter much less than the others, or not at all. Nevertheless, power relations are always of great importance in connexion

with the levying of tax revenue, which is required both to cover the costs of such services and for State investment.

We know, moreover, that power relations keep pace with the changes in the social structure. When in the initial phases of these modifications the trade-union and political power of the labour force is non-existent or incipient, the burden of the resources required to cover State disbursements falls largely upon the middle and lower strata, whether the services concerned are of interest to the whole community or only to the upper strata. But as time goes by, the former groups gradually acquire some capacity to recoup themselves, especially the middle strata, and by virtue of their trade-union and political power they endeavour to shift part of the tax burden on to the upper strata.

Obviously, however, under the political compromises between the different strata, much of the expenditure relating to social consumption is covered with taxes which affect the middle strata, although not necessarily the same people that they benefit; and sometimes too the burden falls on the lower strata who obtain none of these benefits, or only a fraction of them.

In short, the taxes in question impel the labour force to try to recoup their losses by recourse to their trade-union power.

In this process, of which the object is to shift the tax burden upwards, two important cases arise.

The first is that of the labour force which has acquired skills, mainly in consequence of its social power. If demand for these skills is in keeping with the increasing requirements of the propagation of technique, wages and salaries tend to rise correlatively, and there is no need for trade-union power to secure compensation for part, if not the whole, of the tax burden. The labour force with conventional qualifications is in a different

position, and its weakness in respect of the relation between demand and supply does not permit it to recoup itself in this way. In order to do so, therefore, it has to resort to its political or trade-union power.

If the labour force favoured by market laws does not need trade-union power to ease the tax burden, the workers who are disadvantaged in the play of market forces do indeed need it, and achieve it to a greater or lesser extent as their position is strengthened with the advance of the democratization process; in this case all these pressures bear on the surplus. The same applies to the tax burden which falls on the owners of the means of production in the shape of taxes on their income from the surplus, whether from that of the same enterprises in which it is generated, or from that of others to which it is transferred in its process of circulation.

4. The critical limit of the system and the inflationary spiral

Thus we approach the system's critical limit. In order to understand what happens when this is reached, it is worth while to recall an indispensable requirement of the dynamics of the system. If the consumer society is to operate smoothly, it is essential that the growth rate of the surplus should be at least the same as that of the global product. Otherwise, if the pressure of the middle strata through the various forms of participation which have just been described, and the incidence of the tax burden on the surplus, were to prevent the fulfilment of this requisite, the attenuation of the surplus would reduce the rate of accumulation, and that would bring down the growth rate of the product and would correspondingly reduce the part of the surplus earmarked for the consumption of the

upper strata. In this case, enterprises would endeavour to retrieve the surplus by raising prices in order to restore the dynamics of the system.

Whether price increases can really be put into effect in the market ultimately depends upon the reaction of the monetary authority, which in this case has two options open to it: to restrict credit in order to prevent prices from going up, in line with the traditional formula; or to agree to expand it so as to allow them to do so. The decisions involved are of course of considerable importance.

If the first option is chosen, the only way in which enterprises can cope with the increase in salaries and wages is by recourse to the surplus. In this connexion, suffice it to recall the mechanism of monetary appropriation of the surplus in order to understand the serious consequences of such an attitude. If future production is to expand, it is essential to increase present employment. The resultant income increments are reflected in an expansion of demand whereby the present increase in production can be absorbed. This demand must be accompanied by the corresponding monetary expansion; otherwise, if the monetary authority were not to make a positive response, and enterprises had to resort to the surplus in order to pay out the additional income earned by the labour force, there would be no such expansion of demand, since the increase resulting from the higher income paid out to the labour force would be offset by the decrease in demand on the part of those who had the surplus at their disposal. Demand would therefore prove to be insufficient to absorb the production increment, and prices would fall. This is, in summarized form, the explanation we gave in the appropriate chapter.

In the case we were considering, if the production increment is combined with the effects of wage increases, the former

could not be absorbed on the market unless demand grew more vigorously, and monetary expansion too would have to be greater if the pay increases were to be transferred to prices. Otherwise, the fall in prices would be accentuated, with the consequent contraction in production.

Here we have something more serious than the conjunctural contractions which frequently occur in the system, since this latter can spontaneously overcome them. But the case under consideration is different. The lower level of activity resulting from the contraction will tend to persist indefinitely if the monetary authority withholds its consent to expansion; and the adverse consequences which this involves are all too well known. Sooner or later, therefore, the monetary authority will be compelled by force of circumstances to change its attitude, if trade-union power makes it impracticable to squeeze wages. Higher prices and the inevitable monetary devaluation will then allow the surplus to be re-established.

It must be understood, however, that for this to happen an indispensable requisite is that salaries and wages should not be raised again in proportion to the rise in prices. This is a technical requirement without whose fulfilment the inflationary spiral could not be averted.

The problem that this poses is not, however, of a purely technical nature, but has profound social implications. The re-establishment of the dynamics of the surplus makes it possible to restore not only the system's accumulation capacity, but also the evolution of the consumer society. This means, all things considered, that if the privileged consumption of the upper strata is to be recovered, it will be necessary to squeeze the consumption of a sizeable part of the labour force which has previously exercised its trade-union and political power of participation. Herein lies, in my opinion, a basic flaw in the

system. But let us not anticipate what will be discussed at the appropriate point in the present chapter. Suffice it to say here, that in view of the nature of the system, in order to fulfil the technical requisite which consists in keeping salaries and wages down to prevent an inflationary spiral, trade-union and political power must be brought to heel by the use of force. Such is the foredoomed outcome of an exclusive and conflictive system!

We said before that the intention of the monetary authorities to prevent inflation by applying the brake of a restrictive policy ends, sooner or later, by making monetary expansion unavoidable. Thus the monetary authority is faced with an insuperable dilemma: either to accept inflationary expansion from the start, or to find itself compelled by force of circumstances to bow to it later.

In any event, the inflationary spiral, rather than securing the re-establishment of the dynamics of the system, culminates in its economic breakdown and its social disintegration. Although these are familiar phenomena, a few points of great significance for our analysis may be briefly noted here.

First and foremost, a rise in earnings to compensate for price increases does not allow the dynamics of the surplus to be restored until prices go up again. Even then, the recovery of the surplus is ephemeral, for in its turn it involves a further wage and salary increase in the course of the spiral. Capital accumulation and the rate of development suffer by this, with all the ensuing adverse consequences, among them the flight of capital abroad.

Next, attempts to control the effects of inflation by stabilizing prices, or keeping up the external value of the currency, or preventing the necessary readjustment in public utility tariffs, or abstaining from increasing tax rates, sooner or later end by giving fresh impetus to the inflationary spiral.

The distribution struggle is exacerbated as the social groups that have been lagging behind extend their capacity to obtain redress, so that the spiral becomes still more uncontrollable.

And this veritable anarchy in the matter of participation seriously weakens the incentives to enterprises to place new investment and discourages labour from increasing productivity.

In all these ways conditions are created that are propitious to the use of force for the purpose of re-establishing normality.

5. *External factors*

We shall now take a look at the main external factors which influence these phenomena; but the question at issue is no longer the effect of factors which help to squeeze the surplus, but that of external factors which affect its actual size. In this case again, it will be impossible to achieve the dynamic recovery of the system without adverse consequences for the labour force.

There are three main factors that affect the surplus in this way, namely: the cyclical fluctuations of external origin and the conjunctural deterioration of the terms of trade; the structural deterioration of the terms of trade; and the negative movement in inflows of international financial resources.

In discussing the first factor it is worth while to recall what was said in another chapter about the surplus in export activities, which is considerably influenced by the cycle and price fluctuations in the centres.

During boom periods in the periphery, the exogenous increase in the surplus, caused by the rise in the value of exports, is augmented by that resulting from the domestic production process, and thus the total surplus is enlarged with the consequent increase in accumulation and consumption capacity, especially in the upper strata,

because of both the direct and the indirect effects of this supplementary contribution. This affords a wider margin for the middle strata to improve their sharing capacity, according to their degree of trade-union and political power.

When the downswing supervenes, the surplus is reduced because of the contraction in exports; but as in the meanwhile consumption will have increased and State services will have been expanded, the restoration of the dynamics of the system cannot be secured unless both are squeezed, except in so far as a countercyclical compensatory policy can be applied.

Such countercyclical measures call for a far-sighted and cautious policy which is seldom adopted. Moreover, they do not possess the merit of compensating export activities for the fall in prices. Consequently, here again we find ourselves faced with power relations. The producers of export commodities will use their power, which is generally great, in an endeavour to attain that end by recourse to devaluation of the currency. And if they succeed in this attempt and thus restore their own surplus, they will once again have done so at the expense of the labour force, both in the sphere of the market and in that of the State. Devaluation, provided that the labour force has sufficient trade-union and political power to react against its repressive effects, suffices to trigger off the inflationary spiral, or to intensify it if it already exists.

I am not, of course, advocating a policy, but pointing out certain exigencies of a system that functions, as I am trying to show, on vicious lines.

When a deterioration takes place in the terms of trade for exports, it is impossible to determine whether it is of a conjunctural or of a structural character; only time can tell. If it were structural, the action called for would no longer consist in circumstantial measures such as I have just

mentioned, but in a policy of production adjustments through which the external imbalance caused by the deterioration could be counteracted. All the more reason still for the re-establishment of the surplus to entail, as before, devaluation of the currency, under the influence of the political power of primary producers.

In this as in the foregoing case, obviously it would not take long for the dynamic effects of devaluation to be dissipated in an inflationary spiral, if the concomitant rise in prices were to be followed by increases in income and taxes, apart from other consequences.

A deterioration in the terms of trade also takes place when import prices rise, as has happened in the case of petroleum, among others, owing to inflation in the centres.

This involves internal price increases which, if they bring about the corresponding rise in pay for the labour force, also have the effect of squeezing the surplus. This suffices to generate the inflationary spiral and a devaluation of the currency when the trade-union power of the labour force disadvantaged by market laws is strong enough to offset the real damage to its income in the distribution struggle.

In contrast, in countries exporting oil and other natural resources whose prices improve in relative terms, it is possible to satisfy the various demands of the distribution struggle without affecting the surplus – rather, in fact, contributing to its increase. By this means the crisis of the system is warded off, although perhaps not indefinitely.

In conclusion, consideration should be given to the last aspect mentioned: the inflow of external financial resources. In this there is a positive phase, followed sooner or later by another of a negative character, which makes its appearance in two important instances: through the

resources brought in by the transnational enterprises and through contributions to the State for its investment.

In the first instance, the transnationals, when they make their investments, increase the rate of accumulation, as well as the growth rate of the surplus, by virtue of their acknowledged efficiency, with favourable effects on the rate of development. But all this is paid for when the net inflow is reduced or becomes negative as new investment decreases and the financial remittances from earlier investments increase. Much the same thing happens with funds for State investment.

It is understandable that when the trade-union and political power of the disadvantaged labour force has developed very substantially, these financial movements, according to whether they are positive or negative help to relieve or to intensify the distribution struggle and the system's tendency to reach a crisis.

6. The crisis of the system and the use of force

Let us return to the crisis of the system and the use of force to suppress or contain the trade-union and political power of the labour force, in which event the currency can be devaluated in order to allow prices to rise, without a correlative increase in the pay of the labour force. And if the pay squeeze transfers income to the privileged strata and especially to the owners of the means of production, it may even be possible to succeed in raising the rate of capital accumulation, and therefore the rate of development, above that prevailing before the system's critical limit was passed.

The increase in the rate of development steps up demand for manpower equipped with the ever-widening range of skills which that development requires, in contrast with the harm inflicted on the bulk of the labour force by the squeezing of their real

pay. What is more, these circumstances are usually attractive to the transnationals and to funds from abroad, which brings in a new factor that is favourable to development, provided that this movement remains positive.

Unquestionably, the re-establishment of the dynamics of the system entails a significant social cost, in addition to the huge political cost incurred by the use of force.

The pay squeeze is an answer to various needs. It is necessary, of course, in order to restore the rate of capital accumulation and perhaps to raise it; but also to give fresh impetus to the consumer society since in this accumulation and privileged consumption are closely linked. Thus the consumption of the many who have lost their redistributive power is squeezed in favour of the consumption of the few who have regained their power to increase the surplus. Nor is this all.

The consumption of the adversely-affected labour force will have to be squeezed still more in so far as it has not been deemed desirable, or possible, to reduce state expenditure, the expansion of which has contributed to the critical attenuation of the surplus. The incidence of this phenomenon is very different, in a régime in which the power of the labour force is suppressed, according to whether it is social consumption that is concerned, or the spurious absorption of the labour force in State services, or the services that by their own dynamics have grown beyond what would be permitted by considerations of economic efficiency. It should be borne in mind, moreover, that the use of force generally involves a considerable increase in the expenditure in question.

As has already been remarked, in peripheral capitalism the production effort is strongly slanted towards the privileged-consumer society of the upper strata. It is there that the rate of development is

usually high, sometimes very high, whereas it remains minimal at the other extreme, that of the sub-consumer society of the lower strata. It is essential that this should be so if the surplus is to grow continuously for the greater benefit of the privileged group. And another essential requisite is that, up to a point, the aspirations of the middle strata that are disadvantaged under market laws should be contained. It would not be wise to allow their power of participation to penetrate too far into the domain of the surplus, especially when this is already somewhat circumscribed by the expansion of State services, or by an unfavourable trend in relations with the centres. And these requisites can only be effectively met if the democratization process is contained, or if, when it has reached a certain pitch, it is suppressed by the use of force.

Any system, if it is to be dynamic, requires ceaseless capital accumulation. Accumulation must necessarily be effected at the expense of the growth rate of consumption. But when, in order to weather the crisis, the consumption of the labour force is squeezed, the idea is not to allow the latter to accumulate for itself, but to enable the upper strata to do so once again, while at the same time they recover their ever-increasing consumption capacity. Moreover, the characteristic process of concentration of capital continues, generating new surpluses and bestowing upon those who have the capital in their hands the true key to development in peripheral capitalism.

7. The crisis of the system in relations with the centres

The world-wide nature of development explains why the consequences of advancing democratization in the periphery extend beyond its geographical frontiers. They are sufficient in themselves to provoke

redistributive reactions, but the problem is deeper-seated and more complicated than that.

As they forge increasingly close links with the consumer society, the transnational enterprises share political influence with the most powerful strata in the periphery. Thus they participate in the distribution struggle and, as it becomes polarized, increasingly feel its effects.

But the consequences of the march of democracy are not confined to these. They go farther, for in the periphery they include a growing awareness of its own personality, aspirations to participate increasingly in decisions affecting the community, efforts to learn to do what outsiders, by virtue of their technological and financial superiority, are doing inside the countries themselves. The transnationals cannot escape the implications of this growing sense of national identity; on the contrary, they lay a flank wide open to criticism, especially on the part of those who impugn the system from within or from outside it. Their gigantic size, their tendency to penetrate inordinately far into the peripheral economy, the impenetrable secrecy in which their operations are shrouded, the suspicion that their international sphere of action is favourable to certain manipulations, are well known to constitute matters of great concern in the periphery. Accordingly, feelings and aspirations antagonistic to this new manifestation of the hegemony of the centres assert themselves, and gain renewed vigour.

All this is added to the siphoning-off of peripheral income by the transnationals and to their over-large share in the fruits of the technical progress which, it is true, they themselves introduce, but mainly to serve the consumer society. And their increasing influence in the latter affords them the possibility of adopting decisions which do not take the national interest into account.

Thus it is understandable that not only in the distribution struggle but also in the political struggle the transnationals are the object of diverse and sometimes vehement reclamations. The lack of a régime to settle the limits of their action, to stipulate reciprocal rights and duties, means that measures adopted unilaterally by a peripheral country, whether justified or arbitrary, mobilize against it all that formidable constellation of hegemonic interests which surround the transnationals in the centres; and then punitive measures of various kinds ensue, which, as must not be forgotten, sometimes go so far as the use of external force.

In this case too, as in that of internal affairs, political liberalism is self-devouring, largely because of the adulteration of economic liberalism in international relations.

Democracy and national sovereignty are essential and infeasible concepts of political liberalism. But when the advance of democracy tends by its own dynamics to lead to the internal use of force, that same dynamics jeopardizes the sovereignty of the weakest in the play of international power relations.

Clearly, then, the internal use of force and the democratic regression it implies help not only to re-establish the smooth evolution of the consumer society, but also to promote its consubstantiation with the transnationals.

But the use of force cannot be kept up indefinitely. Sooner or later internal pressures begin to be exerted in favour of a return to institutional normality, as is the current phrase.

I ask myself now whether those of us who devote ourselves to disentangling the complex problems of development have offered solutions that are capable of extirpating the deep-seated flaws in the system and at the same time are inspired by inviolable human principles. To

confine ourselves to holding those who have the means of using force responsible for doing so to surmount the crisis, or laying on those who advocate the return to institutional normality the responsibility for opening up the way to new political

cycle, really means shirking our own responsibility for finding solutions that will meet the inescapable demands of the periphery's situation at the present vital moment in its history.

VII

The protagonists and the crisis of the system

Is there an element of determinism in the system?

We have discussed the various forms of power and their interrelationships, and have explained too how the play of these power relations leads in time to a crisis of the system. But nothing has been said so far of the protagonists of development, except for a few observations relating to social mobility. The various forms of power find expression through different protagonists, outstanding among whom are those who in the discharge of their role show the greatest ability and dynamism both in taking advantage of conditions favourable to development —alike in the internal field and in the international sphere— and in endeavouring to cope with and counteract unfavourable changes in those conditions.

This is really deliberate action on the part of the aforesaid protagonists to serve their aspirations and interests to the extent permitted by their degree of power and their ability and dynamism. At all events, it goes on within the system and in line with the structural changes taking place therein.

In the course of the development of the centres certain principles have emerged, together with the corresponding rules of the game, which the periphery has endeavoured to follow in order to ensure

the smooth functioning of the system. But these principles are not automatic; the timeliness with which they are applied, and the manner of doing so, depend upon the decision and ability of the protagonists. And this relates both to the system's regular operation, and to the rules that have to be followed when it has been thrown into disorder by violations of the principles in question.

The possibility of abiding by these principles varies appreciably in different structural phases. It ultimately depends upon how much power to share in the fruits of higher productivity has been acquired by part of the middle and perhaps the lower strata.

This possibility is considerable when the power of participation is non-existent or very slight; but it is not so when that power, in the course of structural change, grows to such an extent that in its clash with the power of the upper strata the distribution struggle is exacerbated and the inflationary spiral supervenes. In this case, the rules of the game become inapplicable; or there simply are none to cope with the crisis of the system.

It would seem, therefore, that the system is subject in its evolution to a measure of determinism in which its re-establishment depends upon the use of force, i.e.,

upon the intervention of new protagonists formerly marginal to the system.

1. *The role of the various protagonists*

We observed above that the protagonists of development are an expression of the various forms of power and the changes that occur in power relations. They act in two different although closely related scenarios: that of the market and that of the State. And when these modifications in power relations take place, the protagonists who play their role in both scenarios during the early phases of structural change are joined in the course of the process by new ones whose action influences the changes in its turn.

During periods of outward-directed growth, as we already know, the upper strata are dominant in the market scenario by virtue of their economic power and their social power, and also in the State scenario, thanks to their great political power. The State machinery is of use to the upper strata both in buttressing and defending the bases of the system, and in obtaining State services for their own benefit and shifting the tax burden to the lower strata, as explained above.

It is the political protagonists that offer this response to the interests and aspirations of the upper strata. And in fulfilling such a role they also share, in one way or another, in the fruits of higher productivity, and at the same time avail themselves of the State apparatus to secure the largely spurious absorption of their electoral clienteles, formed mainly by the traditional middle classes. This, however, does not represent the advance of the democratization process during the phase of outward-directed growth, but is one of the ways of containing it.

With the expansion of the middle strata the trade-union protagonists come to the fore, their aim being to satisfy the interests and aspirations of the labour

force in the market scenario; and in the sphere of the State, new political protagonists emerge. But the power of participation which the two sets of protagonists represent is limited, both by the weakness of the democratization process and by different combinations of manipulation, repression, mobilization of clienteles and co-opting of the protagonists in question which contain or obstruct the genuine progress of the democratic movement. We have already spoken of this elsewhere, but a reminder is worth while to give a better grasp of our explanations.

These new trade-union and political protagonists acquire increasing influence as the changes in the social structure clear the way more freely for the march of democracy. The impediments that restricted their action begin to melt away, and as this happens the power of participation of the middle strata increases, as well as their capacity to defend the share they have managed to obtain during the struggle.

This phase, as will be recalled, is followed by another during which the trade-union and political protagonists carry the power of participation to such a pitch that the inflationary spiral becomes inherent in the system.

Then it is that the protagonists of dissidence make their appearance: those who repudiate the system in its entirety. The lower strata have very little share, if indeed any at all, in the participation process. This serious manifestation of social injustice, and the anarchical participation of those who have in one way or another obtained the benefits of development, are active elements in the creation of this dissidence; and so are the incapacity of the system to absorb the increment in the middle-strata labour force, and the displacement of manpower from the lower strata, whence unmistakable signs of frustration and rebellion emanate. Dissidence, in its zeal to destroy the system, is

thus conducive to violent action, especially when insufficient dynamism is combined with external factors that produce adverse effects.

All these are circumstances increasingly favourable to the appearance of the final protagonists, namely, the holders of other State instruments, those of force, hitherto potential, but now brought into effective operation, and used deliberately to restore the smooth functioning of the system.

2. The protagonists and inflation

We stated earlier that when the critical phase of development supervenes it becomes manifestly impossible to regularize the functioning of the system by the mere application of the familiar rules of the game for combating inflation.

The same is not true of those phases of development in which the trade union and political power of the middle strata is non-existent or merely incipient. Inflation has been frequent, of course, in the past, but it has been due to pressures very different in kind from those which are exerted later, when the power of the middle strata develops.

The former are inflationary pressures due to factors that derive not from the middle strata, but from certain groups in the upper strata. The interests of these groups are served by political protagonists who are powerful enough to overcome the more or less energetic opposition of the monetary authority and to secure inflationary expansion of credit, or who violate on their own account the State's principles of financial austerity, with similar results.

The fact that the middle and lower strata react weakly or not at all means that in this way inflationary enlargement of the surplus is possible. But this course cannot be followed indefinitely, since those

groups, and others who have suffered in the upper strata themselves, end by making their unrest felt and even bringing about a change of political protagonists that reinstates monetary and financial control. And to that end the rules of the game that have been infringed are applied once again.

Let us now look at the difference between this kind of inflation and the sort that occurs when the power of the middle strata to share in the surplus has acquired great importance. When the process thrusts on towards the critical limit of the system, price increase and the consequent inflationary spiral become inevitable, however much the monetary authority may strive to prevent it, as has already been explained in the appropriate context. This social type of inflation becomes even more acute if it is accompanied by the other forms of traditional inflation.

In the case of traditional inflation, the monetary and financial authorities suppress it and the surplus is reduced to the dimensions that are consonant with the orderly functioning of the system. In the other case, that of social inflation, there is no really effective way of staying the course of the spiral; only attempts can be made, which end in frustration. The authorities have grown impotent, however much influence has come to be exercised again in the political scenario by protagonists who try to contain economic disruption and social disintegration. Rather than succeeding in this, they will often end by supporting the claims of the affected groups, or will step down in favour of other protagonists prepared to do so, as a result of which new impetus is given to the spiral.

3. The deliberate action of the protagonists

If in the critical phase of the system very little can be done to avert these serious consequences, the question may well be

asked whether in previous phases of its evolution deliberate influence could be brought to bear on the course of events so as to prevent the system from heading towards that critical phase.

I believe that the combined effort of protagonists with ability and dynamism in the political and economic scenarios may greatly influence the rate of development and its regularity during certain structural phases. But this positive influence weakens and ultimately vanishes when the distribution struggle is exacerbated.

As far as the political protagonists are concerned, their positive influence manifests itself when they show themselves capable of discerning the requirements of development with foresight, especially as regards infrastructure, the training of human resources, orderly and efficient administration, and satisfactory external co-operation; and if they are wise in their application of the rules of the monetary and financial game when the trade-union and political power of the middle strata is non-existent or still very slight.

As regards the protagonists in the economic scenario, it should be recalled that upon their ability and dynamism, as well as upon their decision to accumulate capital, depends the introduction of new layers of technology. And this in turn necessitates considerable skill in recruiting personnel for enterprises who will meet the more and more exigent requirements resulting from the propagation of technique, — a point on which so much stress has been laid elsewhere.

In this connexion it should not be forgotten that the surplus contains not only a structural but also a dynamic element. And the dynamic element depends essentially upon these various protagonists in the scenario of the State and in that of the market.

4. *The system and its integrated components*

Unquestionably, the combined action of protagonists possessed of great ability and dynamism, both in the State and in the market scenario, can speed up the rate of development and the growth of the surplus, especially when external circumstances are favourable. This combined action, however effective it may be, is accompanied in the course of time by structural changes and the corresponding changes in power relations, which confront the former protagonists with the new protagonists of the political and trade-union movement. This is the internal logic of a system increasingly open to propagation from the centres and imitation of their patterns.

Propagation of new layers of technology and of the patterns of consumption of the centres; a serious contradiction, to which is added the siphoning-off of part of the surplus by some of the transnationals, whose protagonists do much to build it up.

But this is not all; from those very centres the scientific and technological discoveries which protect and prolong human life are likewise propagated, and all the more intensively, the more dynamic and capable are the agents working in this field of social activity.

Such is the system. All these elements are an integral part of it, and in explaining its operation they cannot be arbitrarily separated, nor can any one of them be set aside. The system has its internal logic, as was pointed out before, and when in the course of its structural changes the political and trade-union protagonists emerge in the middle strata and their power is strengthened, this power is increasingly used to counteract the adverse effects of market laws on the earnings and employment of the labour force.

Here too the ability and dynamism of the political and trade-union protagonists reveals itself under the impetus of another

form of propagation from the centres. This favourable environment fosters the spread of the democratic ideas and institutions whose advancement is indispensable if the protagonists in question are to play their part in the development of the middle strata. But neither are these strata immune, of course, to the propagation of the patterns of consumption of the centres. There is no *cordon sanitaire* around the upper strata; on the contrary, the middle strata —especially at the higher levels— try to imitate them too. And the public enterprise usually constitutes one way of doing so through political channels, besides playing its role in the spurious absorption of labour.

If the growing power of these political and trade-union protagonists oversteps the system's critical limit, the final outcome is the disruption and social disintegration of the system. For, as has been explained, its dynamics preclude a reduction in the surplus, to whatever extent the size of the latter may have allowed the consumer society to flourish. It is then that the protagonists of force make their appearance in the political scenario, in default of deliberate action to change the system.

The surplus, moreover, is exposed to the unfavourable effects of the external bottleneck. The relatively slow growth of exports resulting from the structural disparities between centres and periphery reduces the surplus, and this entails a decline in the rate of development, with all its negative implications.

The consequences are more serious still when the external bottleneck is aggravated by a deterioration in the terms of trade. If the political protagonists who represent the exporters' interests make an effort to restore the surplus by means of devaluation of the currency, the social cost of this other operation will be borne mainly by the labour force, and not by a part of it only. And in this case, as in the

foregoing, if the power of the middle strata prevents the full re-establishment of the surplus, the suppression of this power, by the use of force, will make it possible to give new momentum to the dynamics of the system, at the huge social and political cost which cannot be too often stressed.

5. *Technobureaucracy and planning*

Mention has more than once been made of the technobureaucracy, a manifest effect of the penetration of technique on the evolution of the State. Its members are not political protagonists, but usually influence them; and they do so with widely differing degrees of technical ability in their purpose of bringing deliberate action to bear on development.

The technobureaucracy carries, among other responsibilities, that of applying the rules of the game, which are not automatic in character. They call for discernment, foresight and ability to withstand the various pressures exerted by economic and political interests, which increase commensurately with the complexity of development.

Because of this same complexity, a quarter of a century ago, planning began to be viewed as an effective instrument of development. Effective in diagnosis, and also, as it was hoped, in carrying conviction to the political protagonists so that deliberate influence could be exerted on the course of events; all of which considerations induced CEPAL to advocate planning.

It was assumed that planning would correct two great defects of the market so that it could work properly: its lack of a time horizon and its lack of a social horizon.

With regard to the first aspect, it was believed that planning would make it possible to anticipate the structural changes that needed to be introduced with foresight into the economic and social

infrastructure, and into the composition of production so as to counteract certain persistent trends towards internal and external disequilibrium, and to strengthen the peripheral economy besides, by simultaneously raising its rate of development.

Orderly internal development of industrialization was necessary, and at the same time the introduction of technical progress in agriculture, for which purposes vigorous impetus had to be given to capital accumulation. International financial resources would serve to encourage the periphery's own accumulation. And all this necessitated planning. By this time we had reached the early 1960s. It was clear that capital accumulation was insufficient in face of the effects of the increase in productivity brought about by the introduction of new layers of technology, and in view of the high rate of population growth over the past two decades.

All the greater, therefore, was the need for planning, that is, for deliberate and systematic action to influence the forces of development and encourage individual initiative, so that it might contribute to the attainment of the major objectives of the plan.

The euphoria of the early days was succeeded by disillusionment and indifference, if not actual repudiation of the whole concept of planning. Several factors contributed to this result, and are worth placing on record because they are the very same that lead to the crisis of the system.

Insufficient accumulation led CEPAL, in the early 1960s, to present some projections which sought to show, in statistical terms, the possibility of stepping up the rate of accumulation, raising the rate of development and securing faster and larger-scale absorption of the labour force, especially from the lower strata. But that entailed some sacrifice of the

consumption, or the consumption increment, of the upper strata. This was the first attack —very prudent and circumspect, to be sure— on the consumer society. The course indicated would permit of dynamic rather than static income distribution, while not precluding some immediate redistributive measures.

But very little has been done to fulfill these objectives, despite the efforts made by enlightened actors on the political scene. And in the meantime, the distribution struggle has been growing more and more heated in the countries that had already entered upon the advanced phase of peripheral development. Planning is impossible in the midst of economic disruption and social disintegration.

Another factor, however, has done much to produce this result. We have just referred to the trend towards external disequilibrium. In the boom years that preceded the economic recession in the centres, development proceeded in a very favourable external environment. The terms of trade improved, successes were achieved in a policy to encourage exports of manufactures and the flow of international financial resources was voluminous. It is not surprising, then, that the tendency towards external disequilibrium was thought to have been overcome. What is more, the very existence of such a tendency was denied, and it was viewed as a mischievous notion spawned by CEPAL to justify the import substitution which it advocated. No wonder, therefore, that with the disappearance of the earlier concern for the external bottleneck another of the justifications of planning lost its cogency.

6. The protagonists of populism

As already pointed out, deliberate action can do very little to counteract the development of the crisis which the distribution struggle brings in its train. This cannot be

achieved through the use of State mechanisms by either the political or the economic protagonists. However great the capacity and experience acquired by these latter, they are as powerless as are the politicians and the trade-union leaders to contain the process, in default of a political consensus.

But although it is impossible to exert a positive influence on the course of events in such circumstances, they do afford a favourable opportunity to political protagonists of another type, those of populism.

These last try to utilize the State machinery on their own behalf or on that of their electoral clientele. And they infringe the rules of the game, when these might be effective, and throw the system into worse disorder when the distribution struggle makes application of the rules impossible. Sometimes their lack of financial restraint starts the inflationary spiral, or accentuates it if it has already been developing.

These protagonists operate in all the structural phases, and in all they are liable to find groups of entrepreneurs and financiers predisposed to abuse, to speculation or to collusion with the agents in question to serve their reciprocal interests.

How do the protagonists of populism emerge in the system? The elements we have been discussing here do not give us the key, which might perhaps be found in the Paretian theories of the undulatory movement of dominant groups. Or will anthropological research have to be conducted in order to understand these phenomena of human behaviour?

7. The protagonists of economic liberalism

Under a régime of force, planning might be a positive instrument to encourage the development of the consumer society, but

as under such a régime economic liberalism usually flourishes, doctrinaire resistance to planning has been very strong.

The main reason for this blossoming of economic liberalism is that in the light of certain neo-classical interpretations the trade-union and political power of the labour force is the principal factor counteracting the system's inherent propensity to equilibrium; this power, therefore, should plainly and simply be suppressed.

Once this paramount aim has been achieved, there is nothing to prevent the principles of economic liberalism from being conveniently trimmed to accommodate dominant interests, or to fit in with certain technocrats' particular conception of the requirements of reality.

All this covers a whole range of attitudes combining the theoretical capacity and the practical skill of the new technobureaucratic constellation which shares responsibility in the system with those who have decided upon the use of force.

Inter alia, the way in which inflation is combated illustrates this clearly. The monetary authorities, which had formerly become powerless, regain their strength, although they do not always show a thorough understanding of the nature of the present new type of inflation. It is now a social inflation which is different from although often accompanied by the traditional kind.

For example, when traditional inflation is due to excessive monetary expansion, the raising of the rate of interest, if not direct restrictions on credit, constitute the only way back to monetary normality, after a transient phase of contraction in economic activity.

What happens, however, is that the monetary authorities, impelled by a sort of dogmatic virtuosity, resort to the same procedure when they are faced with social inflation. However tight a pay squeeze is imposed on the labour force, the correction

of inflation is not instantaneous, but entails a difficult period of transition, during which other factors, of inflation must be attacked. In order to speed up the treatment, recourse is had to what are known as real rates of interest, that is, rates in which the degree of inflation is incorporated, and which therefore are, obviously, counterproductive in their effects.

As already explained, in order to increase production an essential and inescapable requirement is to expand employment and raise the income paid out to the labour force; and if to these higher earnings —however severely real earnings may have been squeezed— is added the generally exorbitant cost of the real rates of interest, the only way out for enterprises is to transfer this new cost component to prices.

And so great is the contradiction implicit in this policy, that far from increasing production it ends by discouraging it, since the expansion of credit, in so far as it takes place, absorbs in itself its very high cost, to the detriment of employment: inflation is damped down by poking up the fire?

I make this assertion because what I have been describing militates against the very dynamic effects that are pursued. For in order to prevent enterprises from obtaining inflationary profits, by the application of real rates of interest, these profits are switched over to banking and financial activities. Moreover, the very understandable difficulties in which enterprises find themselves do not attract investment of the profits thus transferred. In contrast, a new type of consumer society thrives in this way, for the profits in question, diverted from genuine investment, are used outright to boost imitation of the consumption of the centres, especially when these imports are encour-

aged that are necessary to meet the demands of privileged consumption. Consumption and the accumulation of consumptive capital are exalted alike.

Serious differences of opinion also arise in connexion with unemployment. While some see in it a cause for concern, others maintain that real salaries and wages ought to drop until unemployment is absorbed when the system achieves equilibrium. The surplus, of course, is disregarded.

Views on the subject of international trade are also widely divergent. Some take prudent steps to correct the abuses of protectionism and withstand pressures from outside to go further and abolish protection altogether, just when the structural bottlenecks are beginning to make their appearance again. While others, impelled by their unshakeable faith in market laws, which are bound to carry harmony and balance on to the international level, hope that if protection is done away with, the centres will facilitate the entry of peripheral exports.

The attitude of certain neo-classicists to the transnational enterprises is too important not to be mentioned here. But according to some, the doors should be flung wide to allow them, in specific cases, to fill up the room left by the elimination of public enterprises; whereas others propose to improve the public enterprise and impose conditions on the activity of the transnationals, so that particular development objectives, such as exports of manufactures, can be fulfilled.

Be this as it may, however high the degree of intelligent virtuosity with which neo-classical principles are followed, there will be no possibility of simultaneously attaining the great objectives of economic efficiency, social efficiency and respect for fundamental human rights.